Un país en transición

Mexico

A Country in Transition

Foreword

Mexico is a country in transition.

The Mexican economy has been growing at a strong pace, led by rapid growth in exports — particularly to the United States. The new administration under President Fox has put forward an aggressive agenda of economic development and improved social welfare.

However, in many respects, Mexico is still a developing nation. Although a member of the OECD (membership in which is often reserved for the most advanced nations), in terms of education, social security and general standard of living of its citizens, Mexico still lags Canada and the U.S. by a considerable margin.

For Canada, Mexico offers both opportunities and challenges. As Mexico's economy more fully realizes its potential, it will offer Canada a large market for two-way trade. But, at the same time, there will be the challenge of increased competition in our largest export market and most important source of foreign investment — the U.S.

In short, Mexico is quickly becoming a major player in the North American economic space.

This work was compiled before the tragic events of September 11th. It is still unclear how the subsequent downturn in the U.S. economy and tightening at the borders will impact on all North American economies, including Mexico.

102-05282/

Gobierno y Política

Mexico

Government and Politics

There are great expectations for Mexico's new administration

- Following two decades of transformation, 2000 witnessed a turning point in Mexican politics.
  - On July 2nd, 2000, Vicente Fox Quesada of the Partido Accion Nacional (PAN) was elected President of Mexico, ending a 71-year reign of the Partido Revolucionario Institutional (PRI). Mr. Fox's inauguration took place on December 1st, 2000.
- President Fox is seen as a symbol of change for Mexico and there are great hopes and expectations for his new government.

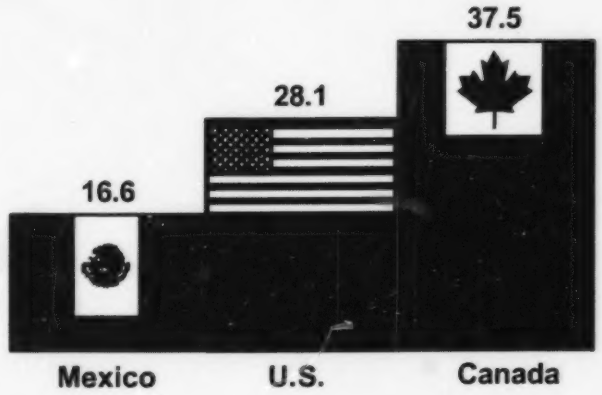
"...There is real change in people's attitudes, there is real change within each man and woman; a huge expectation has been unleashed, there is great hope, faith, there is trust; every man and woman in Mexico wants to be responsible for and participate in the growth of the country." (translation)

President Fox
May 1st, 2001

Mexico has a comparatively small public sector...

- Mexico has a relatively small government presence in the economy. Mexico's government revenue as a percent of GDP is about half that of the U.S. and two-fifths that of Canada.
- This small government presence imposes very little overhead to business operations in Mexico in the form of both taxes and intervention.
- Lower spending on social services also accounts for a significant portion of the difference between Mexico and its northern neighbours.

Government Tax Revenues* as a Percent of GDP, 1999

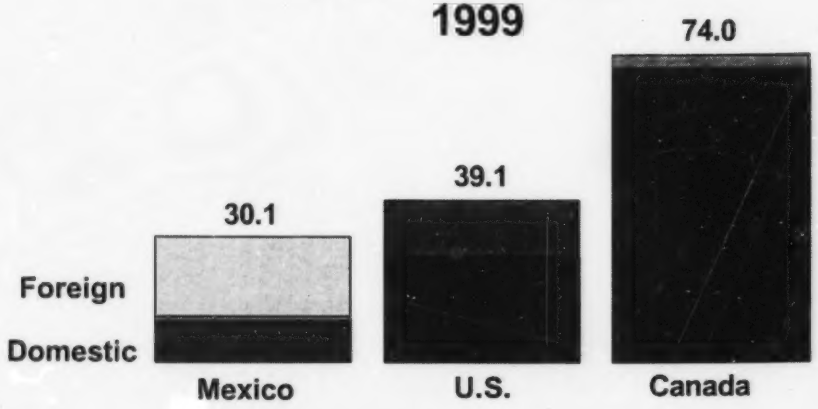


* Direct and indirect taxes including social security.
Source: World Competitiveness Yearbook 2001

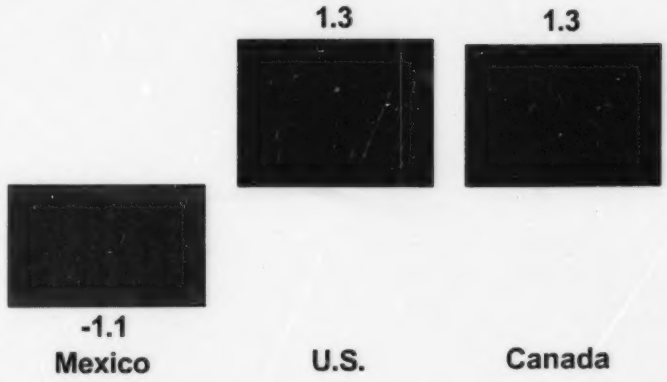
...with a small debt...

- Mexico has a much lower debt to GDP ratio than either Canada or the U.S.
  - This is a result of an ongoing commitment by the government to reduce the public debt, largely through funds generated from the privatization of public enterprises.
  - The large proportion of Mexico's debt held by foreigners contributed to the peso crisis in 1994.
- Unlike its northern neighbours, however, Mexico is still running a budget deficit.

Central Government Debt Percent of GDP, 1999



Central Government Surplus/Deficit Percent of GDP, 1999

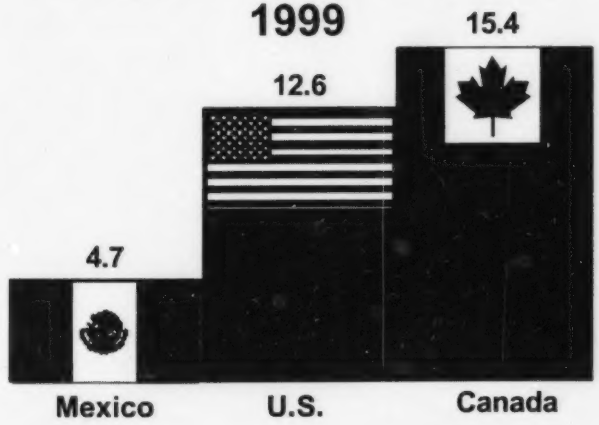


Source: World Competitiveness Yearbook 2001

...and a small tax burden on citizens and business

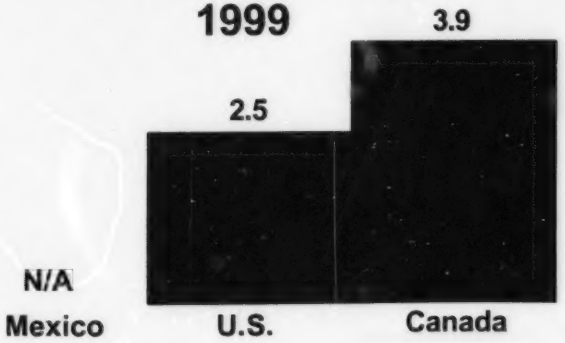
- Consistent with the small share of the Mexican public sector in the economy, Mexico also has a low tax burden.
  - Mexico's income tax regime is an attractive investment incentive for multinational companies.
- Deliberate Mexican policy keeps taxes low, particularly corporate taxes. But, the large informal economy in Mexico also contributes to low tax collection.
  - It is estimated that 40% to 60% of Mexico's population participates in the informal market.

Collected Personal Income Tax as a Percent of GDP, 1999



Source: World Competitiveness Yearbook 2001

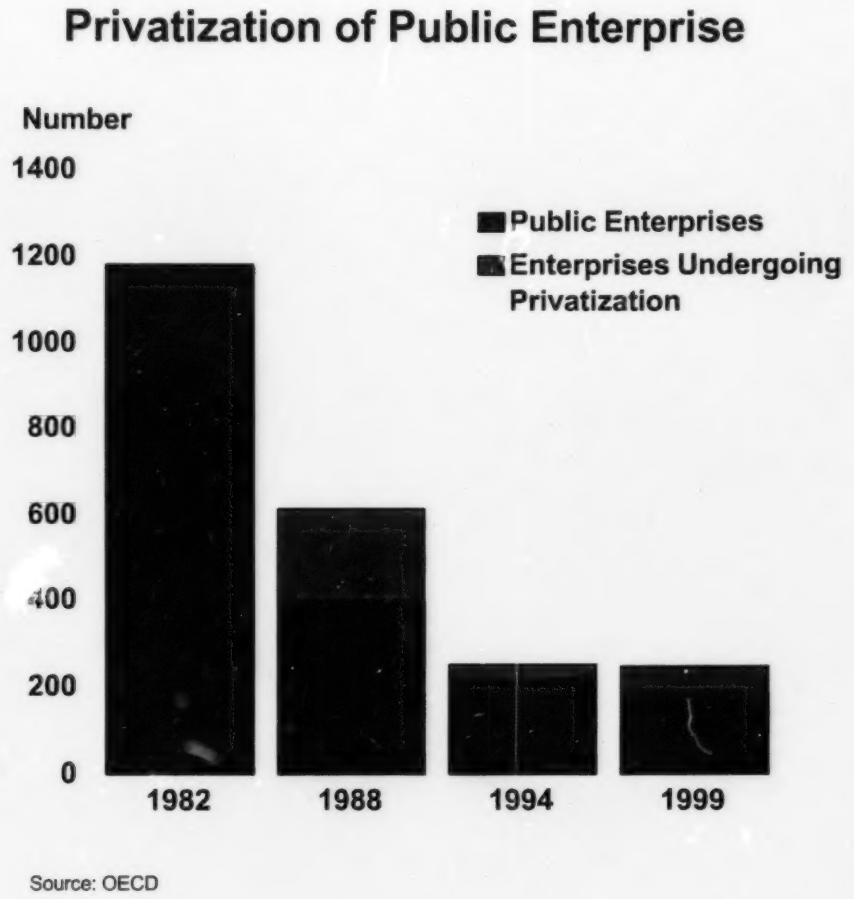
Collected Corporate Taxes as a Percent of GDP, 1999



Source: World Competitiveness Yearbook 2001

Many public enterprises have already been privatized

- Mexico has pursued an extensive policy of privatization.
  - Public enterprises are now only one-sixth of what they were in 1982.
- However, most privatizations were completed in the 1980s. As a result, the pace has slowed considerably in recent years.



Source: OECD

Government spending has been focused on economic development

- Where a government spends its money is an indication of its priorities.
- Mexico spends far more than Canada and the U.S. as a percentage of total government expenditure on Industry Support and Development as well as basic Infrastructure.
  - Subsidies to industry are included in Industry Support & Development, and make up a large share of spending in Mexico. The current government wants to reduce these expenditures.
- Mexico spends less on Health and Social Security & Welfare.
- This is consistent with Mexico's position as a developing country: more resources are being spent on basic infrastructure than on social spending, typical of more developed countries.

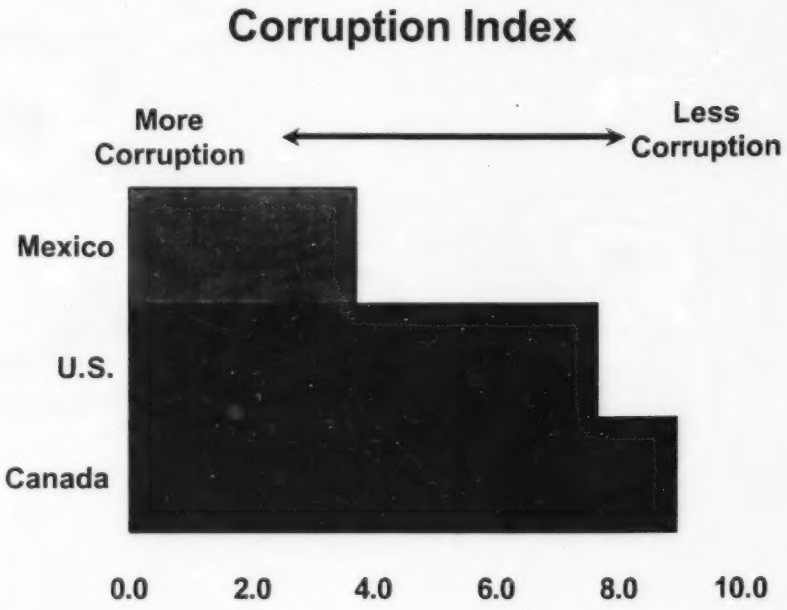
Government Expenditures by Function, Percent 1997

	Mexico	Canada	U.S.
Defence	3.4	2.3	8.2
Industry Support & Dev't	13.2	7.5	5.6
Infrastructure	6.8	4.3	4.5
Public Order	0.9	4.2	4.1
Education	20.9	17.1	18.5
Health	3.3	12.4	18.6
Social Security & Welfare	17.1	27.7	21.5
Other*	38.1	26.7	21.6

*Other includes; general public spending, debt payment, culture and unclassified spending
Source: Government Finance Statistics Yearbook 2000

Eliminating corruption is one of the primary goals of the new administration

- Corruption is perceived to be a bigger problem in Mexico than in Canada or the U.S.
- President Fox has stated that one of his primary goals will be to wipe out government corruption.[1]



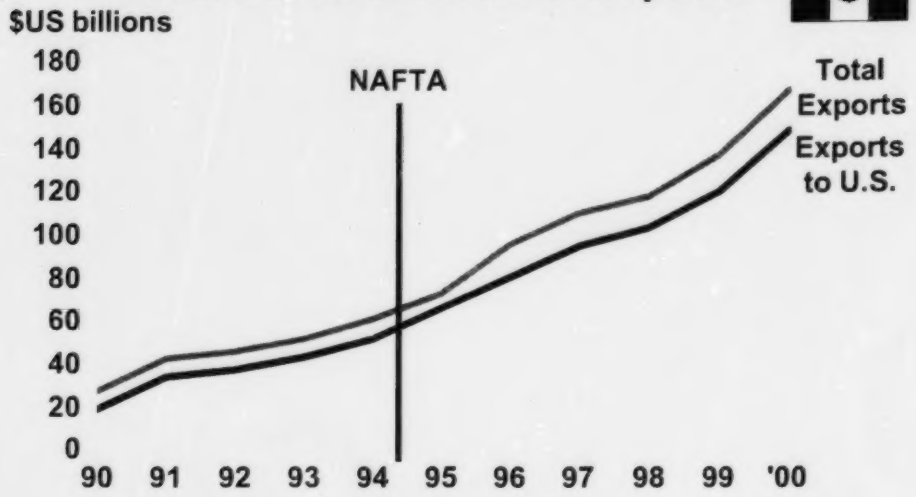
1. Radio interview, National Public Radio, Feb. 1, 2001.
Source: Transparency International

La Economía
Mexico
The Economy

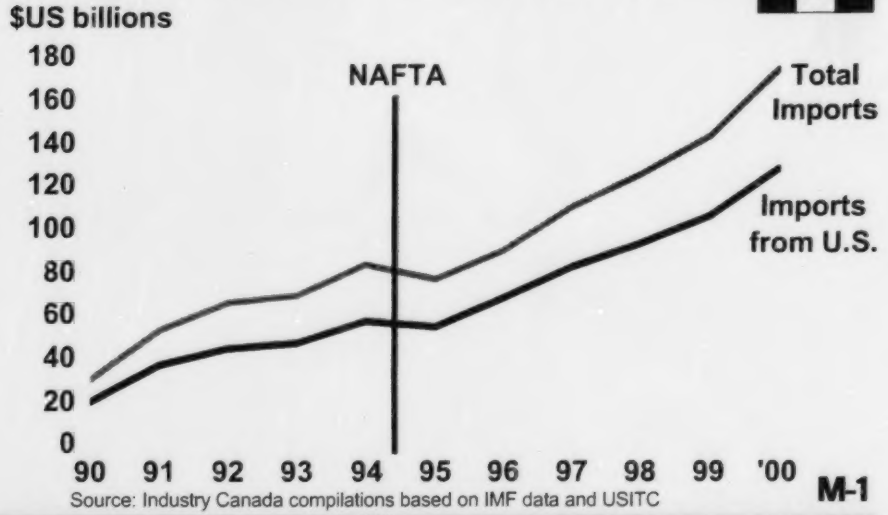
Trade increased fivefold over the 1990s...

- Mexico's trade flows (exports plus imports) increased fivefold over the 1990s.
  - Merchandise exports increased from US$27 billion in 1990 to US$166 billion in 2000. Merchandise imports grew from US$30 billion to US$174 billion.

Mexico's Merchandise Exports



Mexico's Merchandise Imports



Source: Industry Canada compilations based on IMF data and USITC

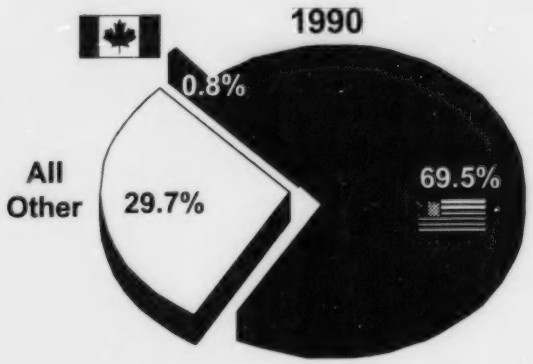
...with most exports going to the U.S...

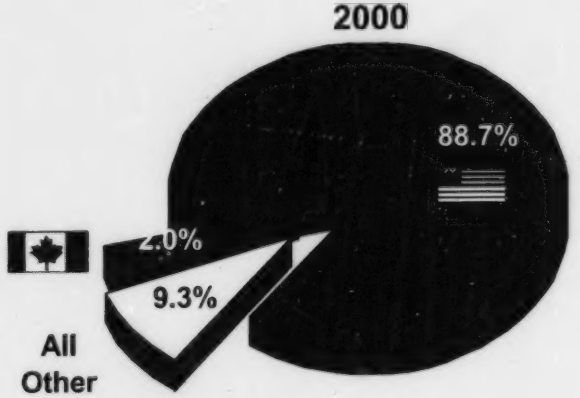
- Distribution of Mexico's trade is very similar to Canada's — almost 89% of Mexico's merchandise exports go to U.S., up from 69% in 1990.
- Canada is the second most important destination for Mexican exports, and Canada's share more than doubled to 2.0% in the 1990s.

Trans-shipments

It is important to note that Canada - Mexico trade could be seriously understated as goods that pass through the U.S. on their way to either Mexico or Canada, may be classified as trade with the U.S.

Distribution of Mexican Merchandise Exports



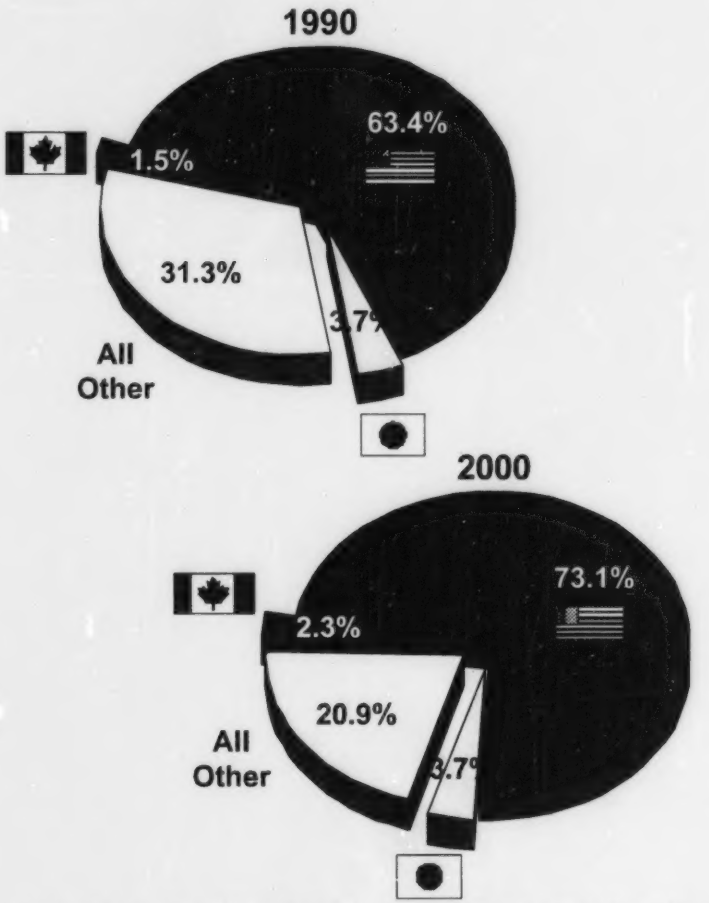


Source: Industry Canada compilations based on data from the World Trade Atlas and IMF direction of Trade Statistics

...and most imports coming from the U.S.

- Mexico's dependence on the U.S. for imports is somewhat less than for exports — over 73% of merchandise imports come from the U.S., up from 63% in 1990.
- Canada is the 4th largest source of Mexican imports, behind Japan and Germany.

Distribution of Mexican Merchandise Imports



Source: Industry Canada compilations based on data from the World Trade Atlas and IMF direction of Trade Statistics

Three industries are driving this growth

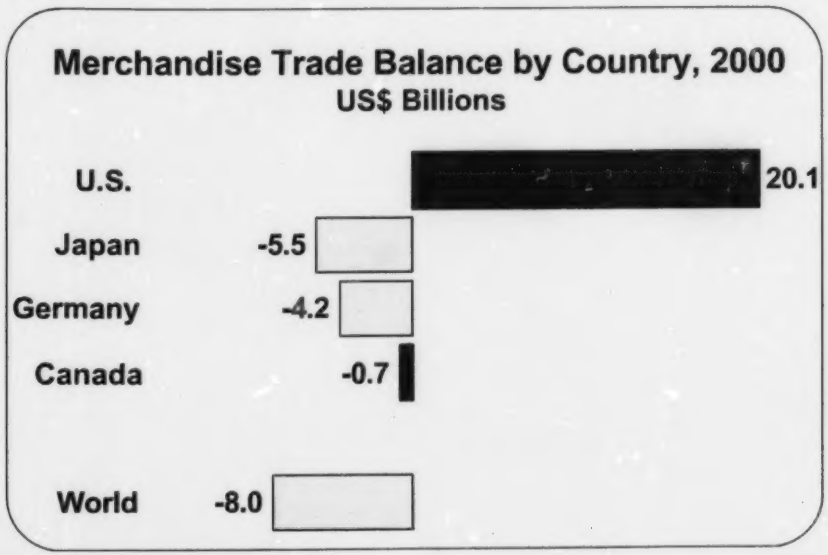
- Almost 50% of Mexico's exports are concentrated in three knowledge-intensive industries:
  - Electronics;
  - Machinery; and,
  - Transportation Equipment.
- Other fast growing high knowledge export industries for Mexico include:
  - Rubber & Plastics; and,
  - Chemicals.
- However, Mexico's imports of Machinery, Rubber & Plastics and Chemicals exceed its exports in these industries, suggesting product specialization.

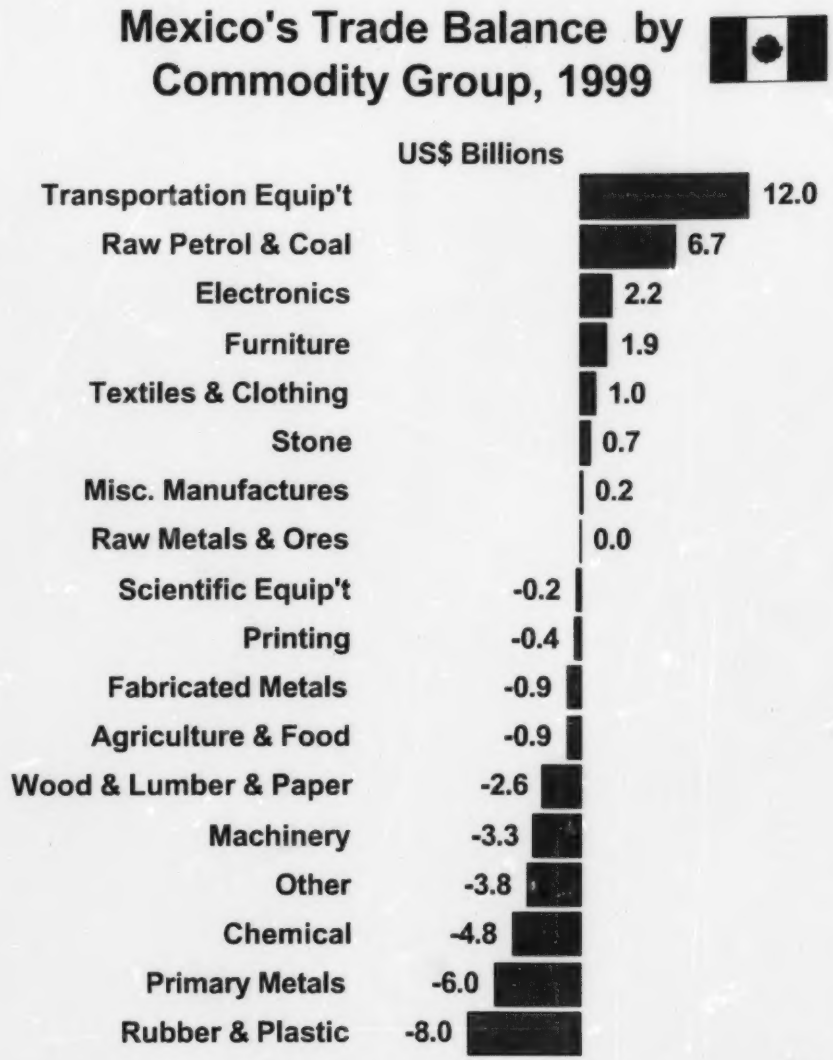
Share of Mexico's Merchandise Exports, 1999

Source: Industry Canada compilations based on data from the World Trade Atlas.

Mexico has a large trade deficit

- Mexico has a merchandise trade deficit of US$8.0 billion — 5% of GDP.
  - Large trade surpluses in Transportation Equipment Raw Petrol & Coal, Electronics Furniture and Textiles & Clothing are more than offset by deficits in Rubber & Plastic, Primary Metals, Chemicals, and Machinery.
- US$20.1 billion merchandise trade surplus with the U.S. is more than offset by deficits with most other countries, including Canada.

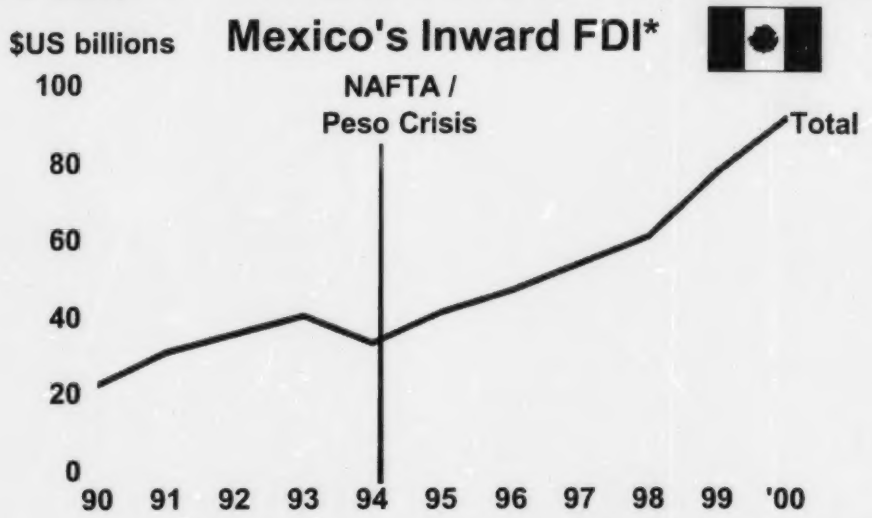


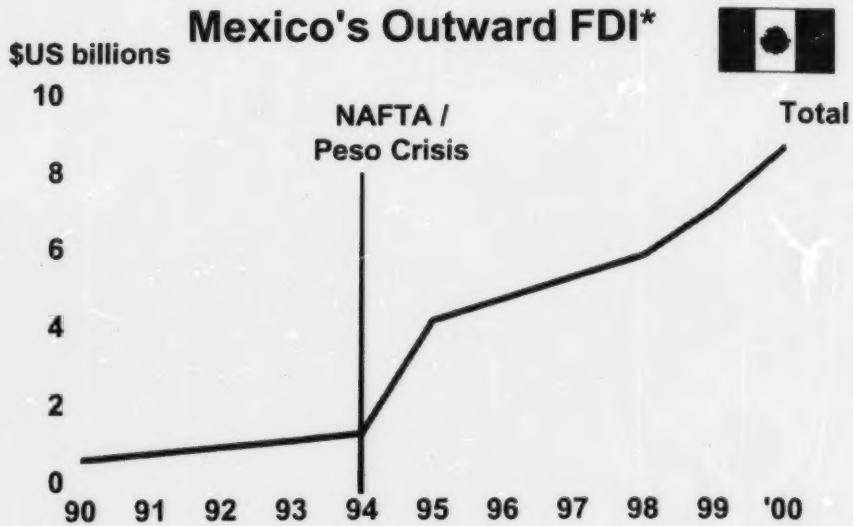


Source: Industry Canada compilations based on data from the World Trade Atlas

Foreign direct investment in Mexico more than tripled in the 1990s

- Foreign direct investment to Mexico more than quadrupled between 1990 and 2000.
  - From US$22.4 billion to US$91.2 billion — an annual average growth rate of 15.0%.
- Mexico's outward FDI has also grown rapidly, but is still very small.
- NAFTA and the peso crisis both took place in 1994 and may have had a significant impact on Mexican inward and outward FDI in that year.



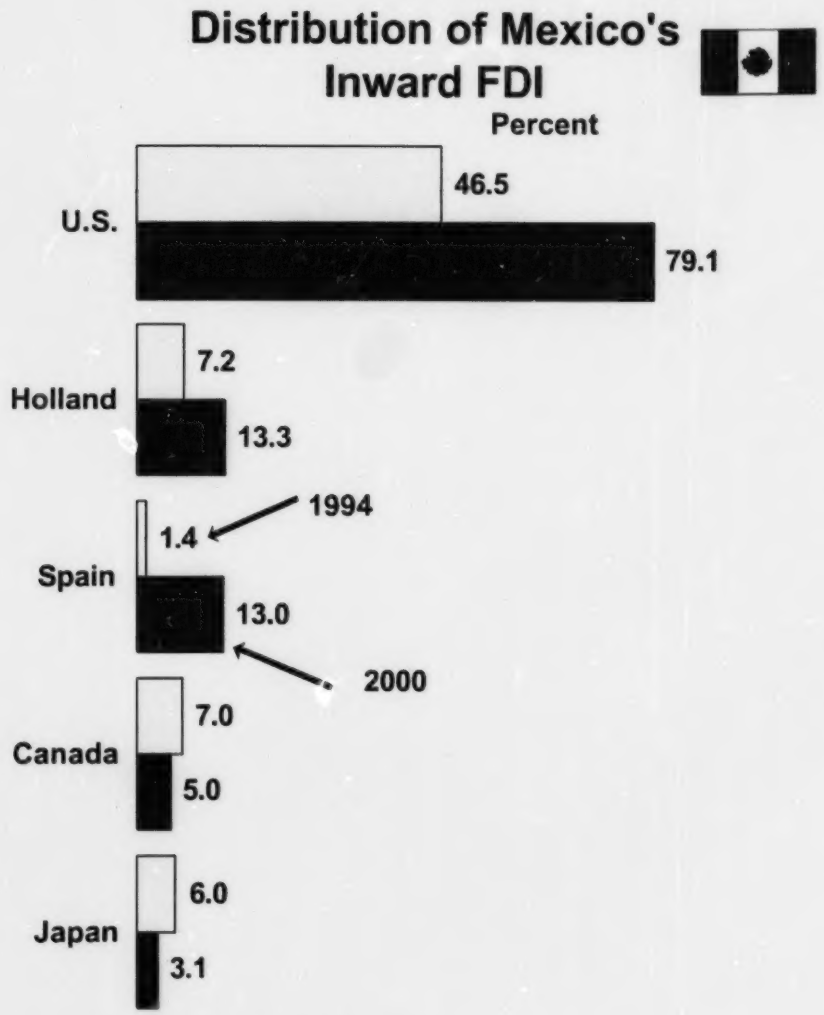


* Stock

Source: Industry Canada compilations based on data from the U.N. World Investment Report and the OECD

With the U.S. accounting for the largest share

- The U.S. accounted for 79% of total foreign direct investment in Mexico in 2000.
- Canada is the forth largest investor in Mexico.



Source: Mexican Ministry of the Economy

Mexico has been positioning itself as a gateway to both North and South America

- Mexico has more free trade agreements than any other nation, with the exception of Israel.
- There is a strong economic incentive to locate production facilities in Mexico.
- Mexico shares a common language and culture with Central and South America as well as holding a key geographic location.
- Mexico is positioning itself as the gateway into the Americas.
  - This may already be occurring. For instance, Spain has increased investment in Mexico at a more rapid pace than in Canada.

Mexican Free Trade Agreements*

Further Proposed Agreements*

Other Latin American Countries, ALADI
Singapore
Japan

* Free trade agreements vary in terms of scope and implementation
Source: Department of Foreign Affairs and International Trade

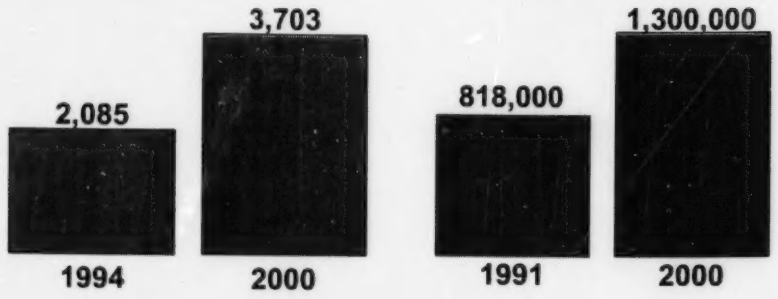
The Maquiladora program has been extremely successful

- Maquiladora have been essential to Mexico's recent economic performance.
  - Nearly half of Mexico's exports are produced by Maquiladoras.
- The role of Maquiladora will change under NAFTA. However, as industrial clusters, the Maquiladoras will continue to play an important role in future economic development in Mexico.

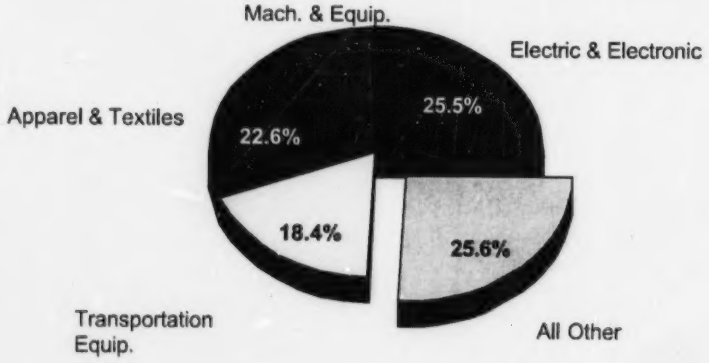
Maquiladora

The Maquiladora program was established in 1966 by the Mexican federal government as a method of promoting economic development along the Mexican-U.S. border. A Maquiladora, generally a foreign owned subsidiary, is able to temporarily import M&E as well as intermediate inputs duty free and exempt from import VAT. The subsidiary can then make use of low-cost Mexican labour to assemble the product which must then be exported.

Maquiladora



Industrial Distribution of Maquiladora Employment, 2000

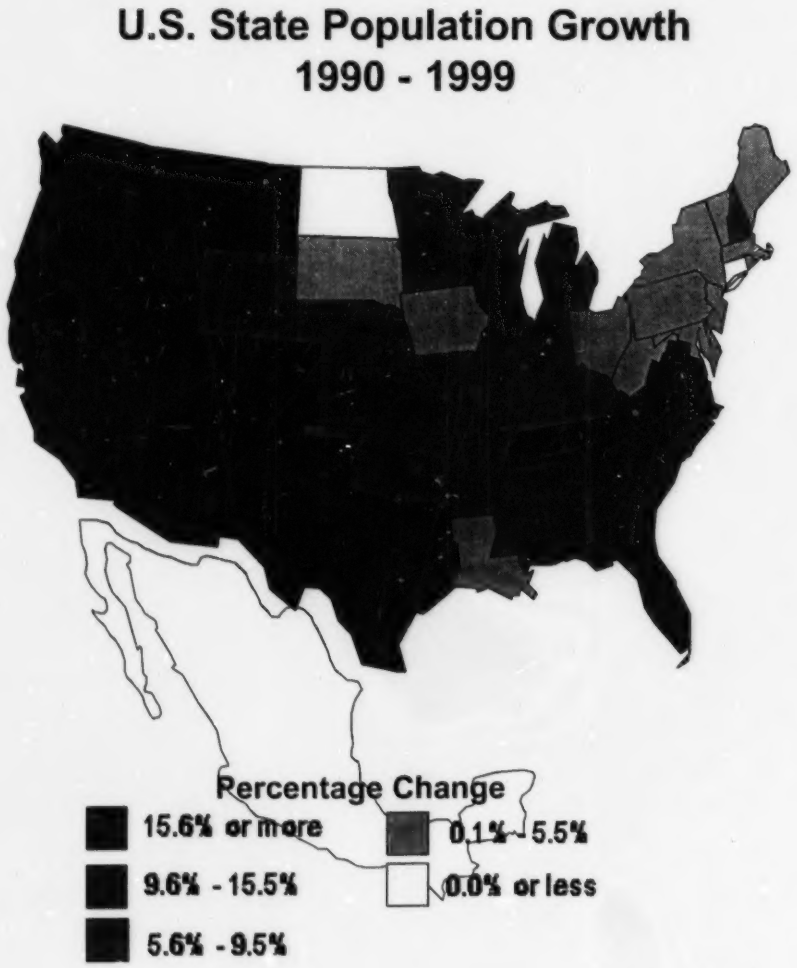


Source: Mexican Ministry of the Economy

Mexico is situated next to the fastest growing U.S. states

- Geography also helps Mexico.
- Like Canada, Mexico also shares a long border with the U.S. and is closely linked to the fast growing regions of the U.S. economy: California, Texas and Arizona.
- A large and fast growing Hispanic population in the U.S., particularly in the south and west, provides a constituency base for Mexico's interests.

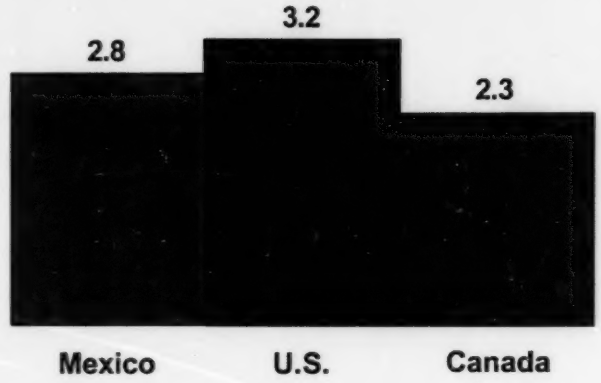
There is twenty times more trade between Texas and Mexico than there is between Canada and Mexico.



However, Mexico's economic growth has not been spectacular

- At 2.8% annually, Mexico's growth in the 1990s was solid, and better than Canada's, but ranked only 10th among the OECD, behind countries such as the U.S., Australia, Norway and Ireland.

Average Annual Growth in Real GDP*, 1990-99 Percent

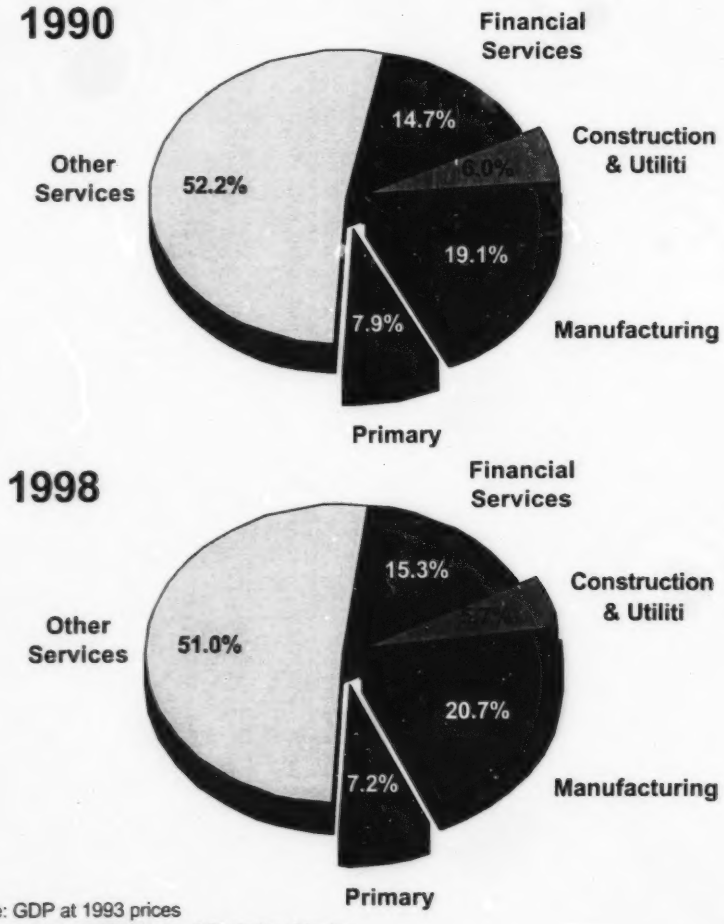


* 1992 dollars and PPPs
Source: OECD

Mexico has a primarily service-based economy...

- Two-thirds of Mexico's economy is based on the provision of services, similar to the U.S. and Canada.
- Manufacturing also accounts for a large portion of Mexico's output at 20.7% in 1998.
- Primary industries, including agriculture, account for only 7.2%.
- These changes do not fully reflect the dramatic changes that the Mexican economy has undergone over the past two decades.
  - In 1982, oil accounted for two-thirds of Mexico's exports, in 2000, it accounts for less than one-tenth.

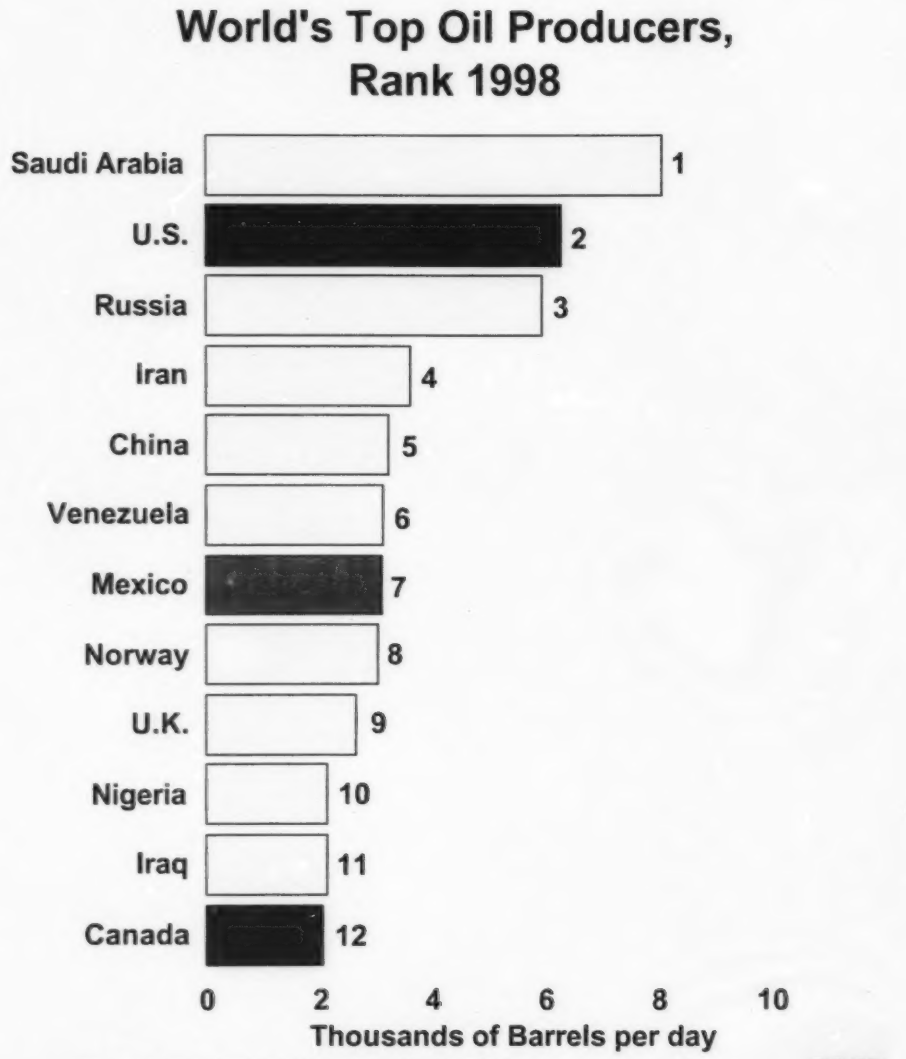
Mexico's Industrial Composition of Output



Note: GDP at 1993 prices
Source: National Institute of Statistics, Mexico

...however, oil is also vital to the Mexican economy and government

- Mexico is one of the world's top oil producing countries.
  - In 1998, Mexico was the world's 7th largest producer of oil, accounting for 4.6% of world production.
- Mexico's entire oil industry, upstream and downstream, is run by a single company - Pemex.
  - This state-owned company, the single largest entity in the Mexican economy, is one of the world's largest oil companies.
  - Pemex accounts for fully one-third of government revenues.



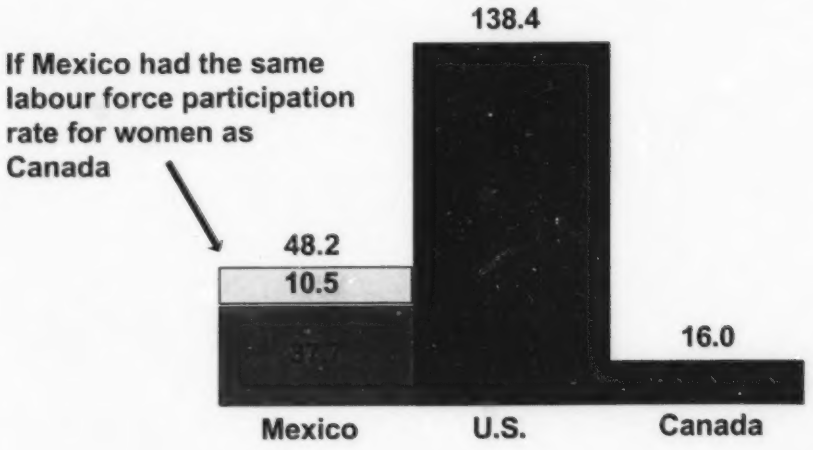
Source: International Petroleum Encyclopedia 2000

Mexico still has an untapped labour pool

- The Mexican labour force is more than twice that of Canada, 37.7 million compared to only 16 million.
- Canada and the U.S. have a much higher labour force participation rate for women. This is in effect an untapped pool of Mexican labour.
  - With a labour force participation rate matching that of Canada, another 10.5 million workers would be added to the Mexican labour force.

40% of Mexico's population is under the age of 20!

Labour Force, Millions of People 1997

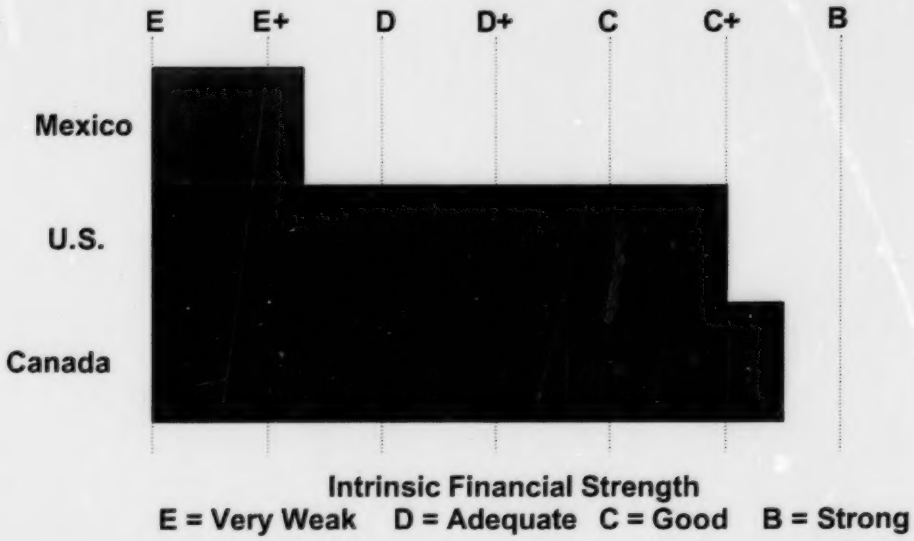


Source: Industry Canada compilations based on data from the World Labour Organization

Reforms are underway to strengthen the financial sector...

- The Mexican government has encouraged foreign investment in the banking sector to make it dynamic and competitive.

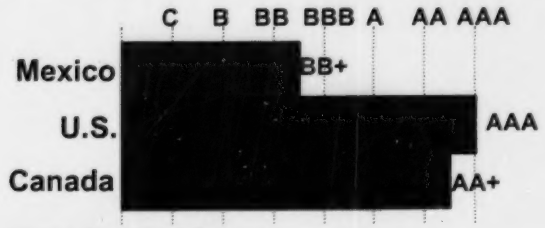
Average Bank Financial Strength Rating



Source: The Economist, March 2000

Credit Rating

Mexico's international credit rating is lower than that of Canada or the U.S. — although this rating has been upgraded somewhat in recent months.

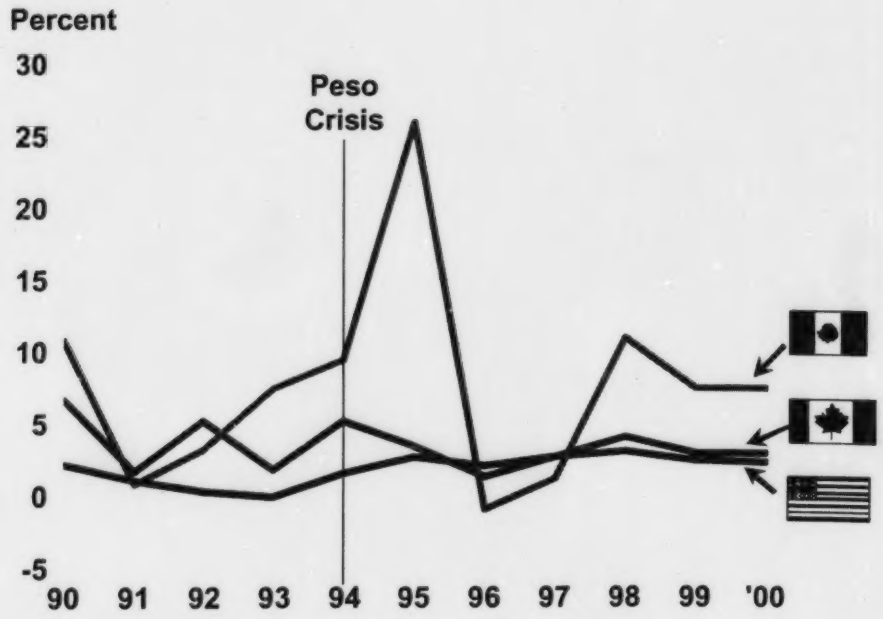


Source: Standard & Poors

...and reduce the cost of borrowing in Mexico

- The real interest rate spread between countries can be interpreted as country specific risk.
  - Real interest rates in Canada, for example, are half a percentage point above those in the U.S. for reasons such as currency risk, ratio of foreign indebtedness, etc.
  - Real interest rates in Mexico are more than twice those of either Canada or the U.S. Nominal rates are nearly five times those in Canada due to high and variable rates of inflation that Mexico regularly experiences.
- High real interest rates imply high borrowing cost, and is a significant impediment to investment and growth.

Real Interest Rates*



* Money market interest rate minus consumer price inflation
Source: IMF

Increasing equality accross regions is a top priority...

- Mexico can be divided into three general regions by income.
  - Northern Mexico, up against the U.S border, is generally the richer region.
  - The Central region contains the bulk of Mexico's population, including Mexico City.
  - Mexico's southern-most region has approximately half the GDP per capita of the richer Northern region.

GDP per Capita by Region, 1999 Pesos

Source: National Institute of Statistics, Mexico

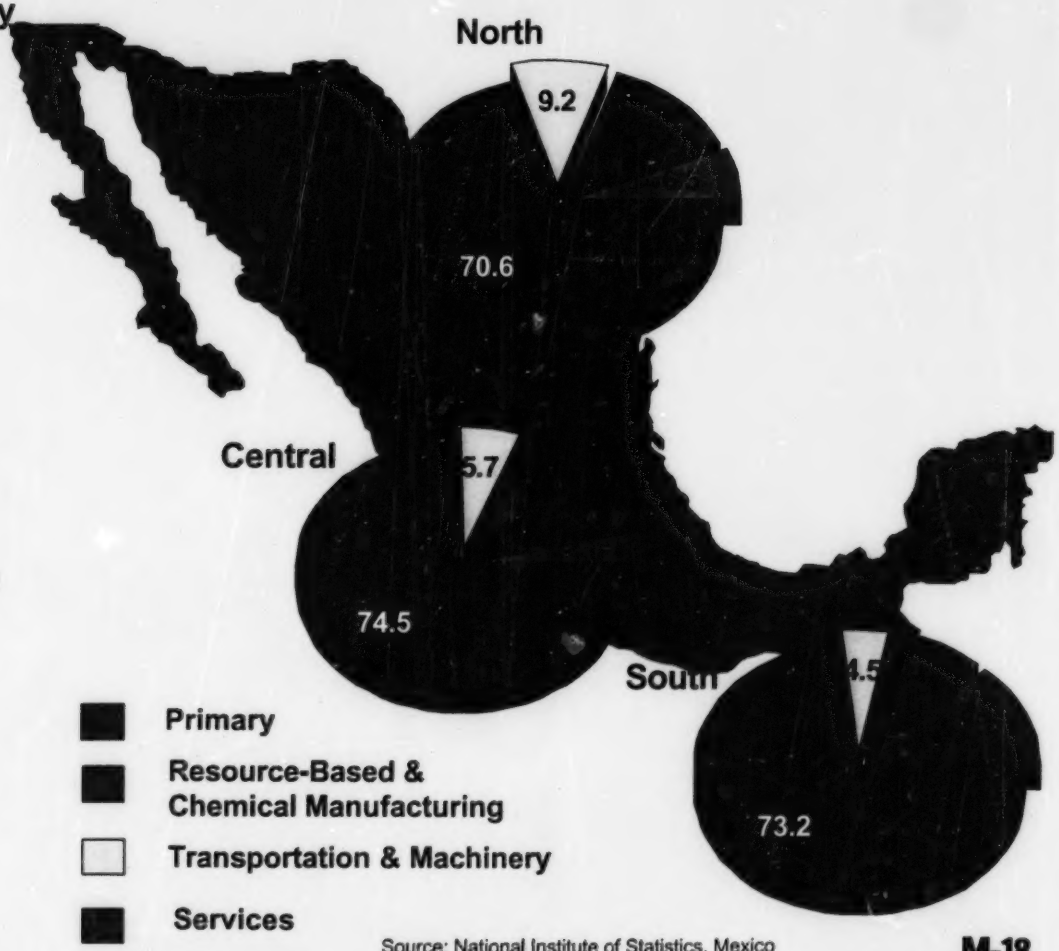
President Fox's Agenda

Has proposed a number of regional development plans, such as the Puebla-Panama Plan to improve infrastructure and upgrade roads from Puebla in Sothern Mexico to Panama.

...by reducing the variation in industrial composition

- Mexico's regions vary significantly by industrial composition.
  - Northern Mexico is an industrial based economy producing automobiles and machinery for export to the U.S.
  - The Central region processes natural resources and produces chemicals. Tourism is also an important part of the economy in Central Mexico.
  - Mexico's southern most region is a more traditional economy with a relatively large primary sector.

Industrial Composition of value-added by Region



Source: National Institute of Statistics, Mexico

Mexico's road transportation infrastructure is limited...

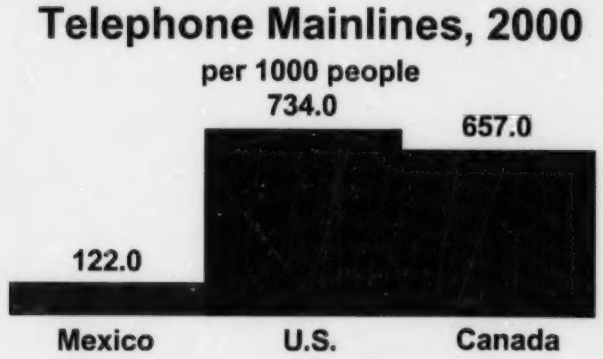
- Transportation infrastructure in Mexico is not well developed compared to the U.S. and Canada.
  - There are few multi-lane highways in Mexico and they do not cover the country well.
  - And, there are no multi-lane highways extending all the way from Mexico City to the U.S. border.

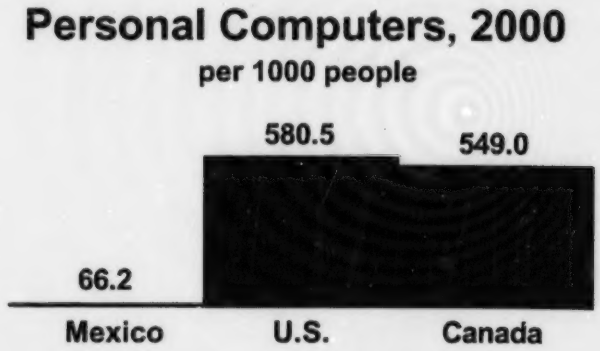
Network of Multi-lane Highways in Mexico

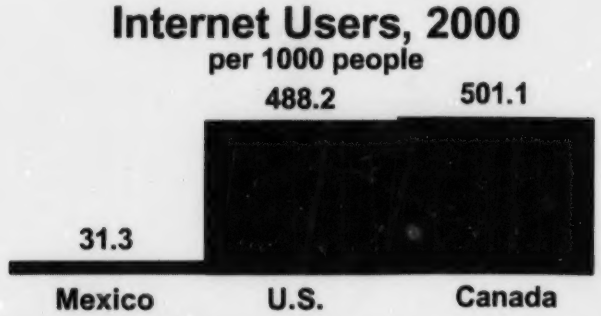
Source: "Road sense", The Economist, October 28th - November 2rd, 2000

...as well as technological infrastructure...

- Mexico lags both Canada and the U.S., by a large margin, in access to telephone lines, personal computers and the Internet.





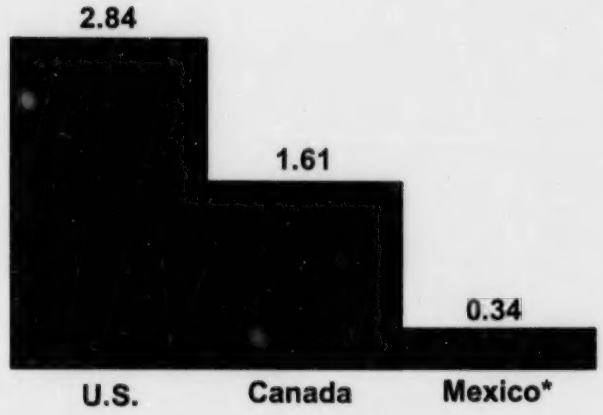


Source: World Competitiveness Yearbook 2001

...and innovativeness

- There is a large gap between Mexico and its northern neighbours in terms of R&D and other measures of "innovativeness".
- It is interesting to note that Mexico lags Canada (1.3 percentage points) by roughly the same amount that Canada lags the U.S. (1.2 percentage points) in terms of spending on R&D as a percentage of GDP.

Spending on R&D (GERD as a Percentage of GDP, 1999)

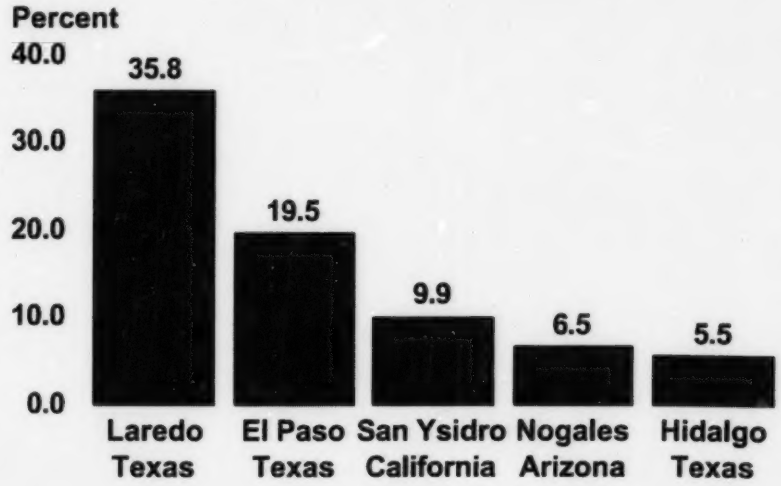


* 1997 data for Mexico
Source: OECD, Main Science and Technology Indicators, 2000

Trade has outgrown border infrastructure

- More than three-quarters of Mexican exports to the U.S. pass through only five border crossings.
  - More than half pass through the two busiest.
- Congestion at these crossings increases waiting times and costs.
- Issues of security are also extremely important at the U.S./Mexican border.
  - Over 90% of the U.S. border patrol agents (8,300 agents) work along the Mexican/U.S. border even though the Canada/U.S. border is much longer.
  - According to the INS, an estimated 1,200 people try to cross into the U.S. without proper documents every day.

Share of Mexican Exports to the U.S. by Border Crossing, 1999

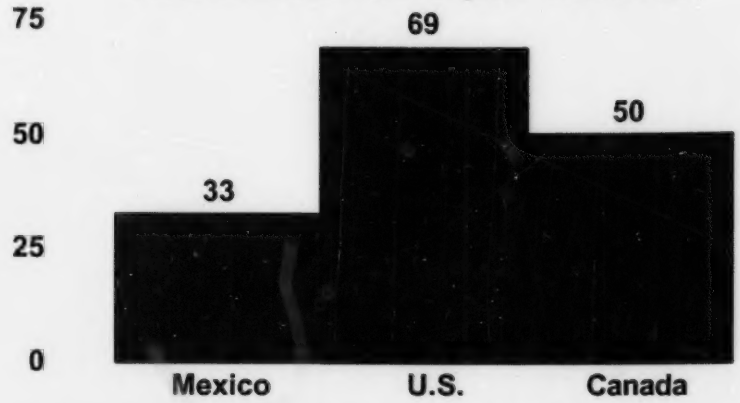


Source: Federal Reserve Bank of Dallas, El Paso Business Frontier Issue 2, 2000

Labour productivity is lower, but wages are even lower...

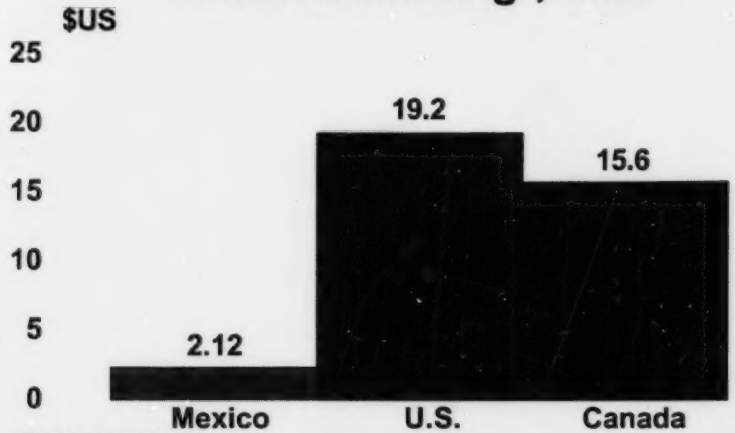
- Labour productivity is much higher in Canada than it is in Mexico. Canadian manufacturing workers produce on average US$50,100 per worker compared to only US$32,500 in Mexico.
- At one-seventh the wage rate however, Mexico enjoys a huge unit labour cost advantage over Canada.

Labour Productivity*, 1997
Thousands $US per Worker



* Real output per worker in manufacturing, 1992 prices and PPPs.
Source: OECD STAN database

Average Hourly Compensation in Manufacturing*, 1999



* Production workers
Source: U.S. Bureau of Labour Statistics

...due in large part to the exchange rate

- Over the last 10 years, the peso dropped to about a third of its value, relative to the U.S. dollar — from 2.8/$US to 9.5/$US in 2000.
  - Much of this drop occurred during the December 1994 peso crisis, as the peso dropped from 3.38/$US to 6.42/$U.S.
  - The peso has stabilized in recent years and has actually appreciated against the U.S. dollar in 2000.

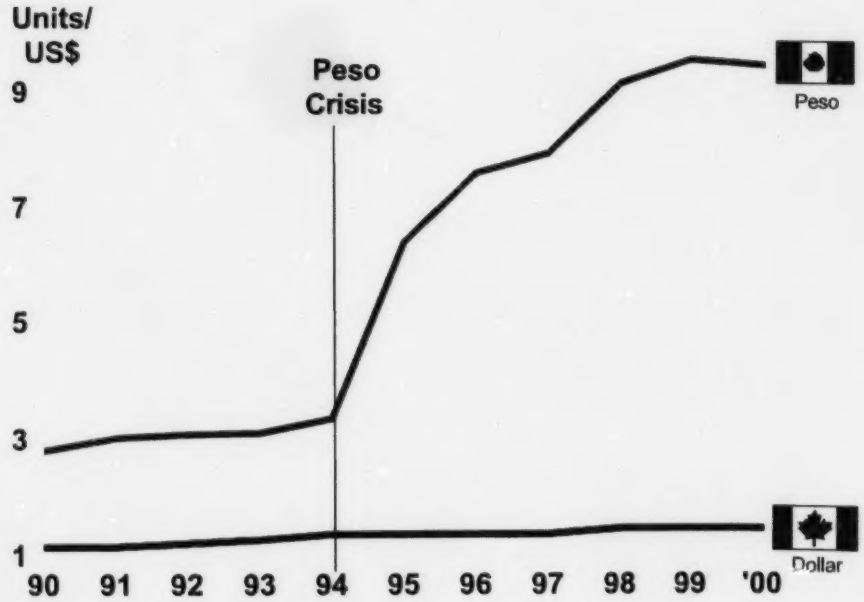
The Peso Crisis and the recovery

The Mexican Peso Crisis occurred in December of 1994. Prior to 1994 Mexico was undertaking an aggressive program of structural reform. Massive amounts of foreign capital began to flow into the country resulting in capital account deficits equal to 7% of GDP. The result was a dramatic appreciation of the exchange rate.

The trigger for the crisis is not clear. What is clear is that in an extremely short period of time in December 1994 the peso lost nearly half of its value and foreign capital began to hemorrhage out of the country.

The IMF and the U.S. provided a financial bailout package that was combined with effective domestic stabilization policies. Mexico has recovered quickly.

Value of National Currency Relative to the US Dollar

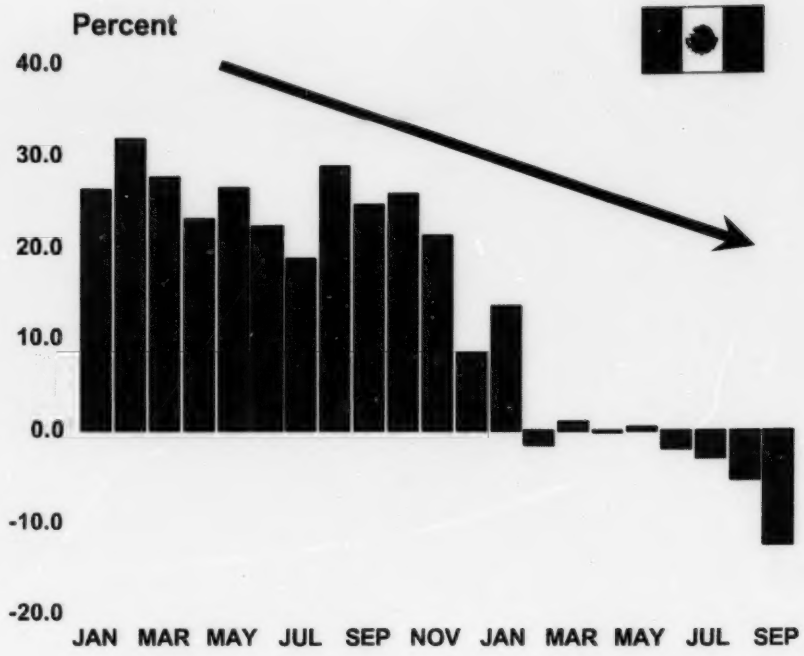


Source: IMF

Mexico is vulnerable to a U.S. slowdown

- Over the 1990s, Mexico has witnessed tremendous growth in exports to the U.S., however, Mexico may also be vulnerable to a U.S. slowdown.
- On a year-over-year basis, Mexico's export growth to the U.S. has dropped from averaging more than 20% to zero growth in only a few short months.
- There are a number of reasons why Mexico's export growth to the U.S. has slowed so quickly:
  - Export growth has been extremely focused in a few industries;
  - Maquiladora's are not supported by domestic industry; and
  - Limited intra-firm trade and other long-term linkages.

Year-over-Year Growth of Exports to the U.S.

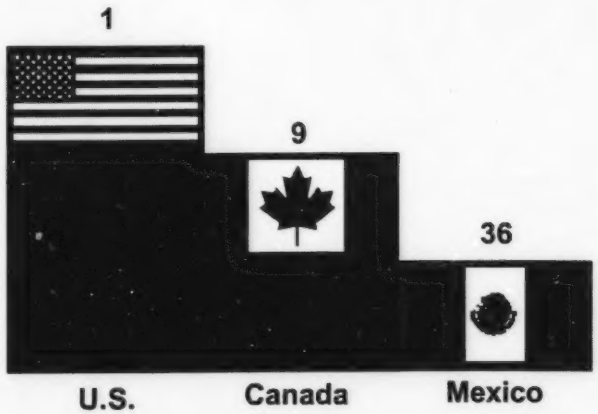


Source: USITC

Both Mexico and Canada share economic space with the most competitive nation in the world

- According to the World Competitiveness Yearbook 2001, the U.S. maintains its rank as the most competitive country in the world, a distinction it has held since 1997.
- Canada's ranking of 9th has fallen considerably since 1997, when it ranked 6th.
- Mexico's position has fluctuated greatly, while its ranking of 36th is an improvement over it 40th place ranking in 1997, Mexico was placed at 33rd just last year.

World Competitiveness Scoreboard, 2001

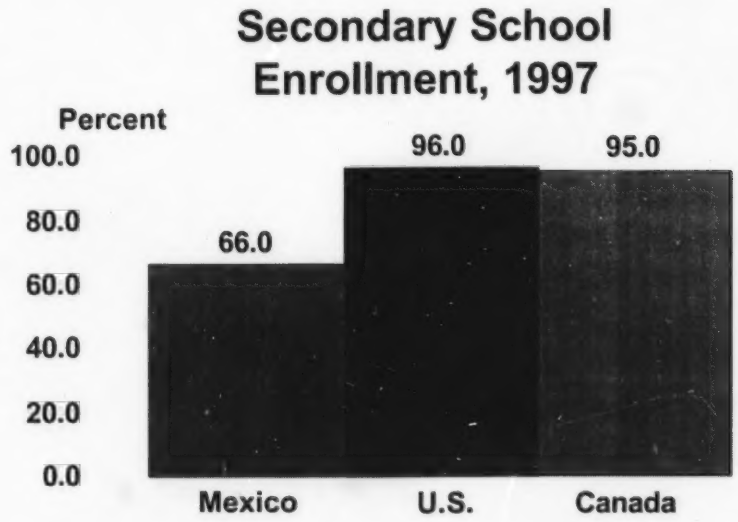


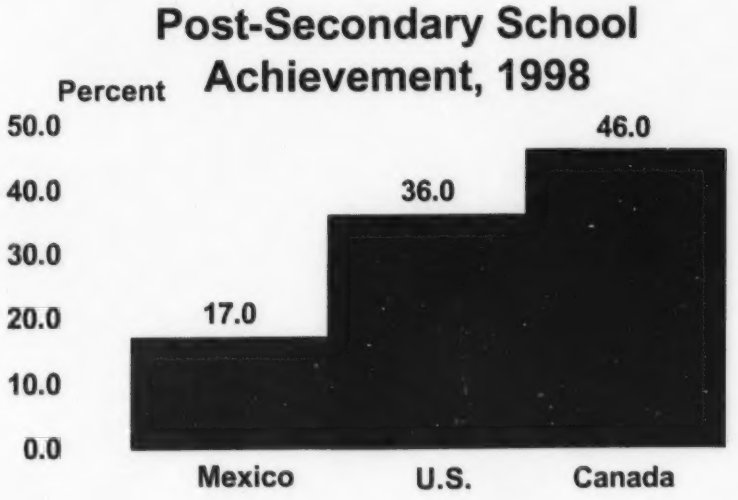
Source: World Economic Forum "The World Competitiveness Yearbook"

La Sociedad Mexico The Society

Mexico's population has the basic levels of education...

- Compared to Canada and the U.S., the Mexican workforce is far less educated.
- Mexico's enrollment in secondary education lags Canada by about 30 percentage points.
- The difference is much greater for post-secondary education. 17% of the Mexican population has some post-secondary achievement - about one-third that of Canada.





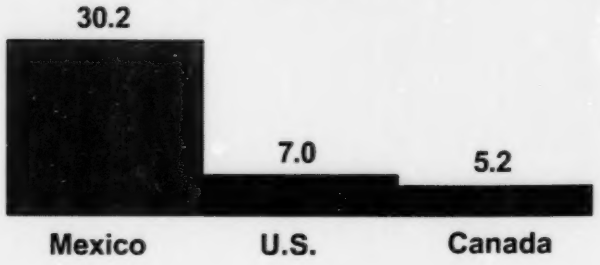
Source: World Competitiveness Yearbook 2001

...and healthcare

- Mexico's infant mortality rate is nearly six times that of Canada.
- However, life expectancy is only 6.5 years shorter.

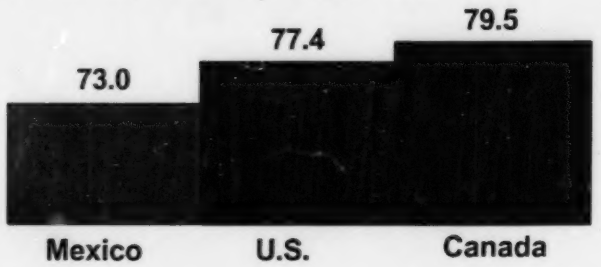
Infant Mortality Rate, 1995

Deaths per 1000 Live Births



Life Expectancy, 2000

Life Expectancy at Birth, Years



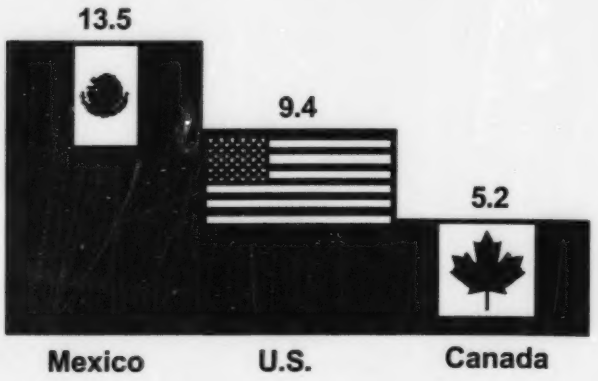
Source: UNESCO

There still exists a high degree of income inequality in Mexico

- The richest 20% of the Mexican population receives 13 times more income than the poorest 20%.
  - In Canada, they get 5 times more.

Income Distribution, 1999

Income Share of Top Quintile Relative to Bottom Quintile



Source: UNESCO

Un Participante de América del Norte

Mexico

A North American Player

Mexico is already an important player in North America

- Using purchasing power parity (PPP) exchange rates, it is estimated that Mexico accounted for 7.4% of North America's gross domestic product in 1999 - only 0.1 percentage point less than Canada.
  - Mexico accounts for a much smaller share (4.6%) of North American output when measured using market exchange rates.
- Mexico accounts for almost a quarter of total North American population - more than three times that of Canada.

Share of North American GDP*, 1999

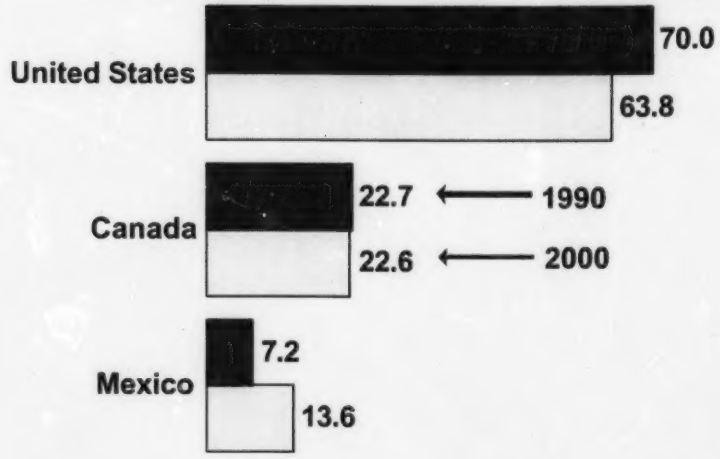
Share of North American Population, 1999

* GDP at 1992 dollars and PPPs
Source: Industry Canada compilations based on OECD data

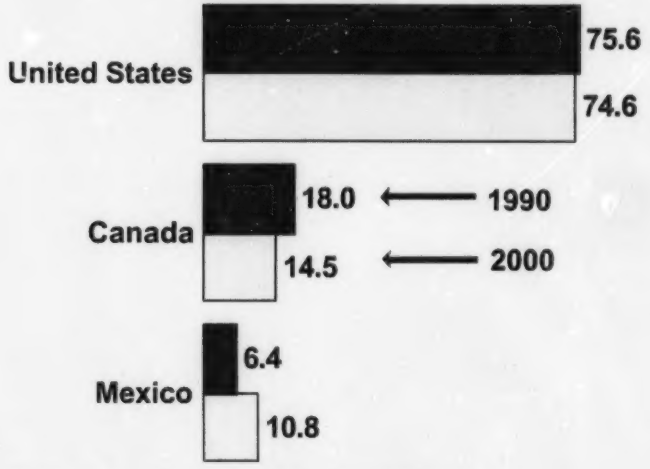
Mexico's share of North American trade more than doubled...

- North America now accounts for a larger portion of world trade than it used to.
  - North America accounted for 19% of world exports in 2000, up from 16% in 1990.
  - North American share of world imports also increased, from 19% in 1990 to 25% in 2000.
- Mexico's share of North American exports increased 6.4 percentage points to 13.6% in 2000.
  - This increase occurred largely at the expense of the U.S., with Canada's share remaining relatively unchanged.
- Mexico's share of North American imports also increased over 6 percentage points to 10.8% in 2000.

Share of N.A. Merchandise Exports



Share of N.A. Merchandise Imports

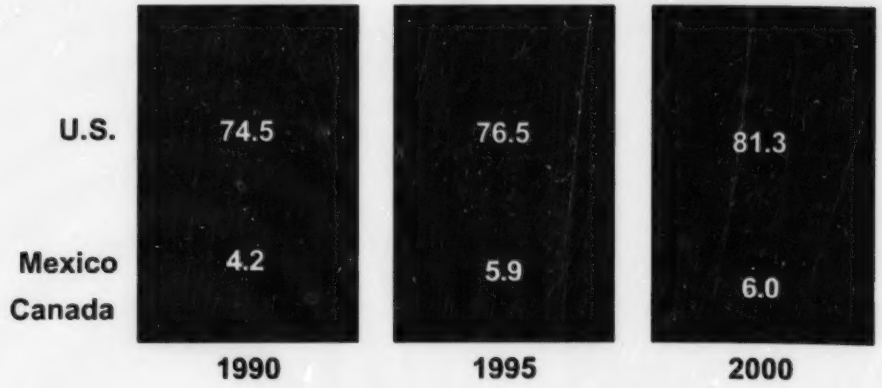


Source: Industry Canada compilations based on WTO data

...and share of North American FDI increased somewhat in the 1990s

- In the 1990s, Mexico's share of North American inward FDI increased from 4.2% in 1990 to 6.0% in 2000.
  - Over the same period, Canada's share of North American FDI has declined steadily, mostly to the U.S.

Share of North American Inward Foreign Direct Investment*

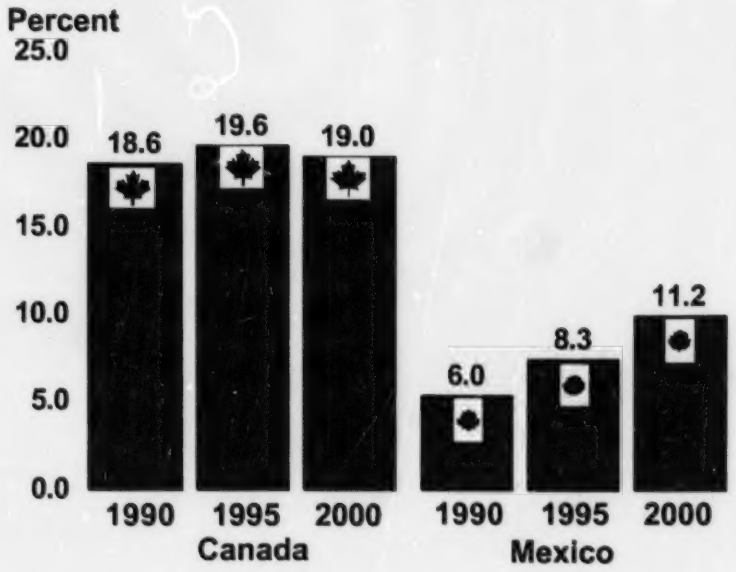


* Stock
Source: Industry Canada compilations based on data from the U.N. World Investment Report

Mexico is potentially a competitor for Canada in the U.S. market...

- Mexico's share of U.S. merchandise imports almost doubled, while Canada's more or less remained constant.
  - Canada's share of U.S. imports remained just under 20%, while Mexico's share increased from 6.0% in 1990 to 11.2% in 2000.
  - In the 1990s, Mexico's exports to the U.S. grew at an average annual rate of 15.6%.
  - By comparison, Canada's exports to the U.S. during this period grew at an annual average rate of 9.0%.

Share of U.S. Imports

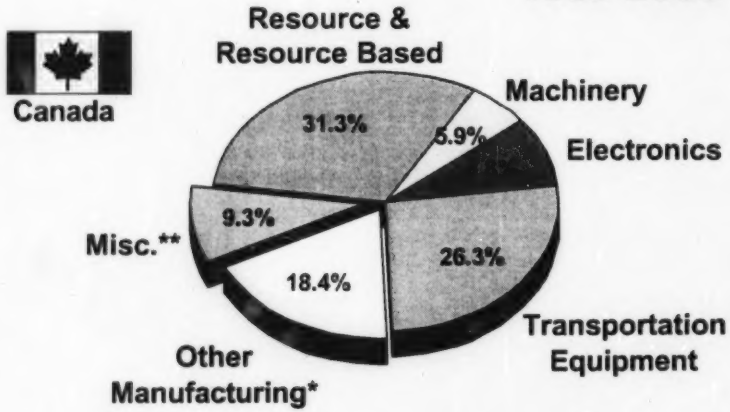


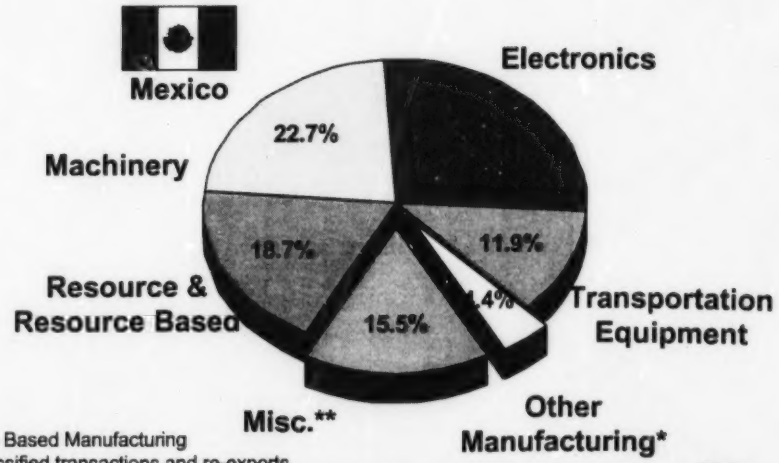
Source: Industry Canada compilations based on data from the U.S. International Trade Commission

Canada and Mexico are competing in many of the same industries...

- The same three industries accounted for the bulk of export growth in Canada's and Mexico's exports to the U.S.
- Three industries, Transportation Equipment, Electronics and Machinery, accounted for more than 60% of Mexico's export growth to the U.S. in the 1990s. These three industries contributed 42% of Canada's export growth to the U.S.
- Resource & Resource Based industries accounted for about one-third of Canada's export growth to the U.S. during the 1990s and about one-sixth of Mexico's.

Industrial Contribution to Growth in Exports to the U.S. 1990-2000

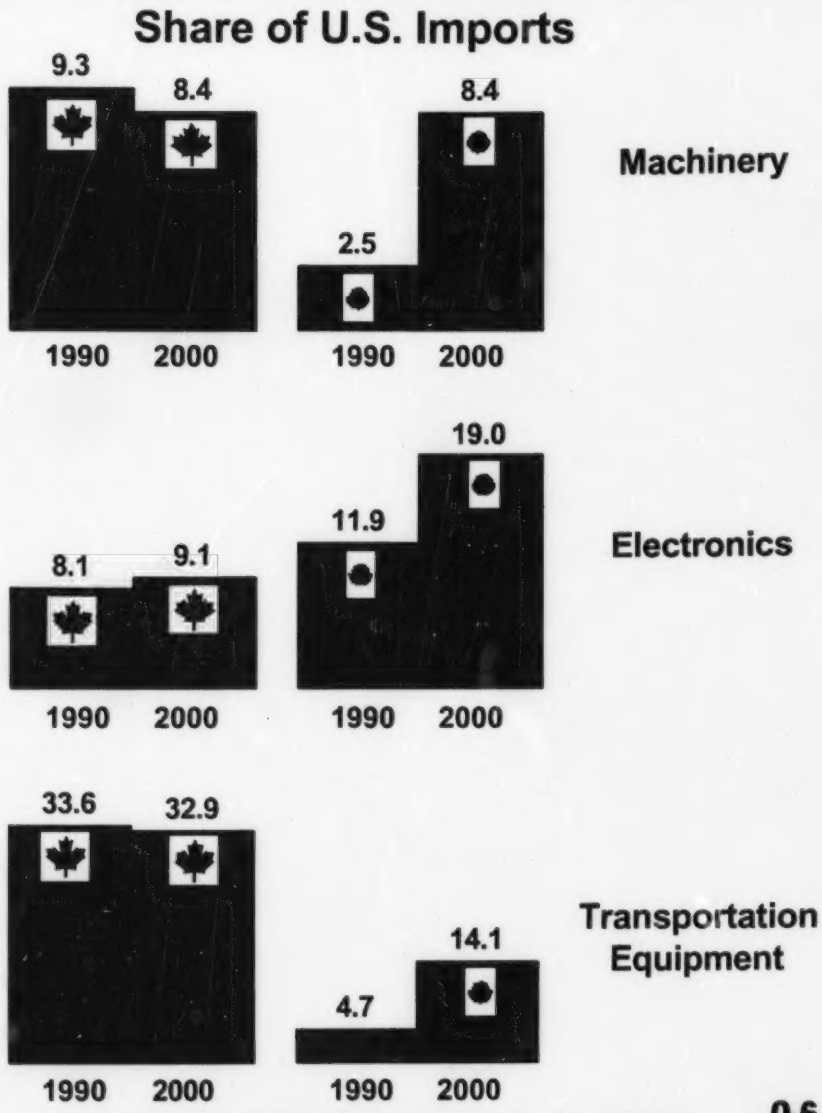




* Other Non-Resource Based Manufacturing
**Misc. includes unclassified transactions and re-exports
Source: Industry Canada compilations based on data from the U.S. International Trade Commission

...and in three key industries, Mexico has been growing faster

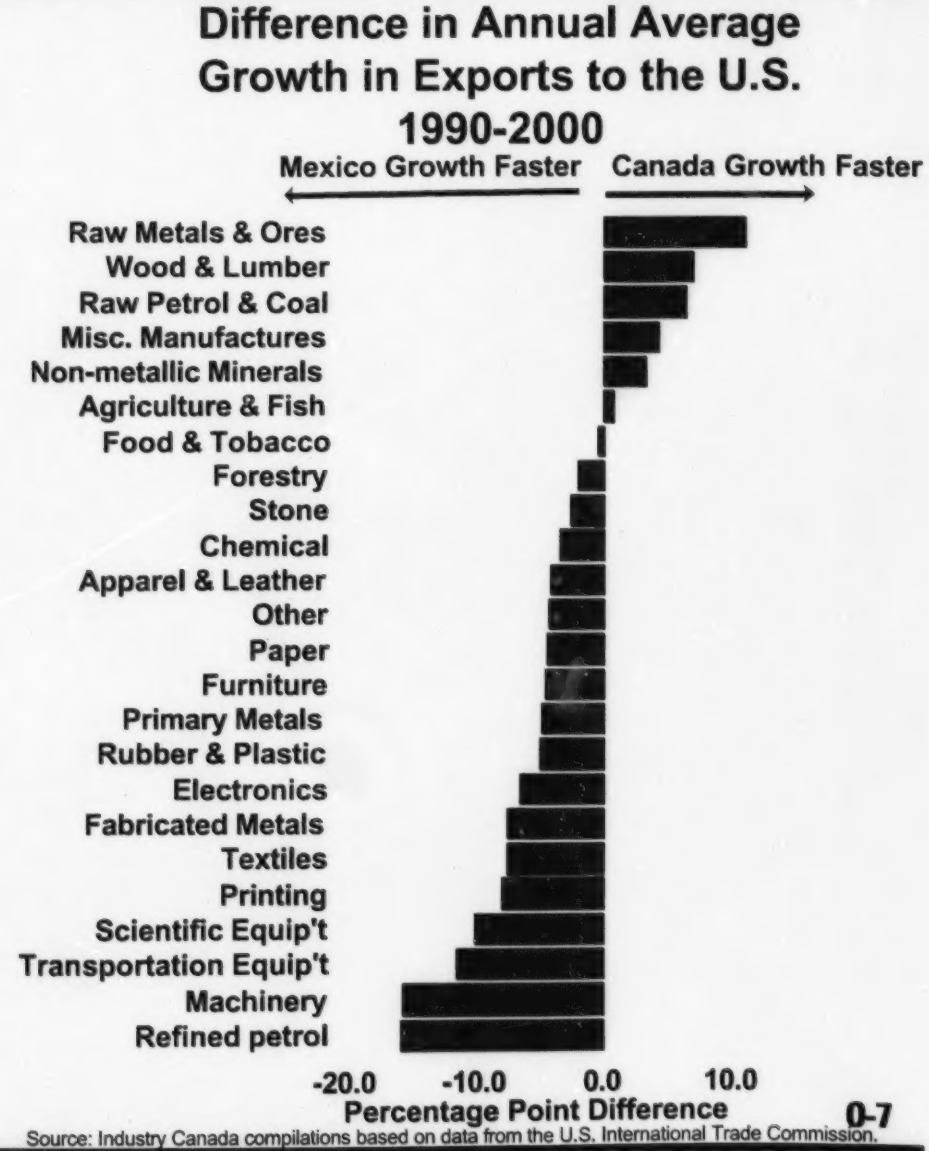
- In the three industries that accounted for the largest share of growth in exports to the U.S. for the two countries, Mexico's growth outpaced that of Canada by a wide margin.
  - As a result, Mexico increased considerably its share of U.S. imports in all three industries.



Source: Industry Canada compilations based on data from the U.S. International Trade

Canada has had superior performance in resource-based industries

- Canadian export growth outpaced Mexican export growth to the U.S. in only 6 out of 24 industries.
  - Five of these are resource-based industries.



0-7

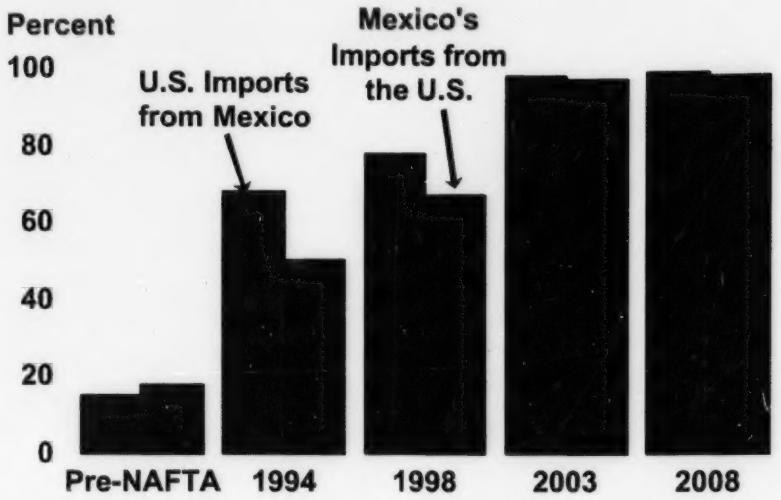
Source: Industry Canada compilations based on data from the U.S. International Trade Commission.

Mexico's trade barriers are falling

- Mexico's tariff reductions under NAFTA are not yet fully implemented.
- NAFTA specified a 15-year tariff elimination schedule on trilateral trade.
  - In the agreement's first five years, 76.2% of U.S. imports from Mexico and 66.3% of U.S. exports to Mexico were slated to become duty free. This leaves about a quarter of Mexico's exports that are still subject to tariffs when entering the U.S.
  - Scope for further growth in trade flows between Mexico and the U.S. exists, leading to further productivity improvements.

NAFTA Tariff Elimination Schedule for U.S. - Mexican Trade*

(Share of Trade Covered)

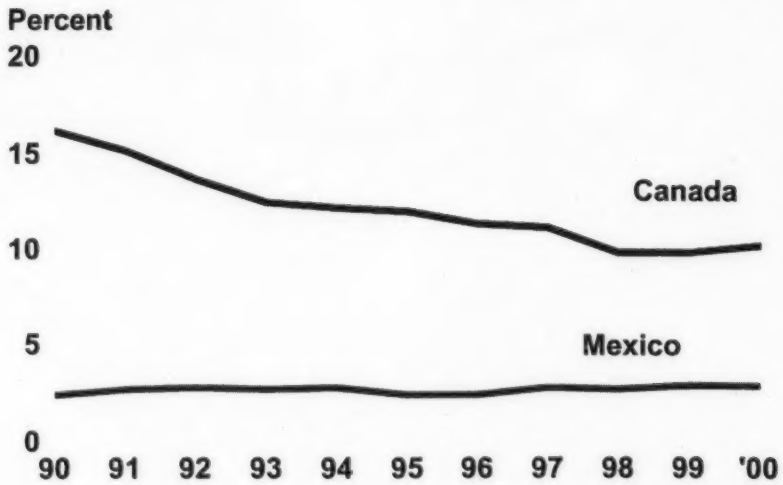


*Actual reductions have been higher than formally stated in the NAFTA agreement.
Source: Federal Reserve Bank of Dallas, El Paso Business Frontier Issue 2 1999

Mexico has also had more success in attracting U.S. investment

- Mexico's share of U.S. outward FDI has remained fairly stable at about 2.7% over the entire 1990s.
- On the other hand, Canada's share has fallen steadily.
  - Canada received about 16.1% of U.S. outward FDI in 1990. But, by 2000, this had fallen to 10.2%.
  - Canada's share of U.S. outward FDI declined in every industry.

Share of U.S. Outward FDI



Source: Industry Canada compilations based on data from the U.S. Bureau of Economic Analysis

Conexiones entre Canadá y México

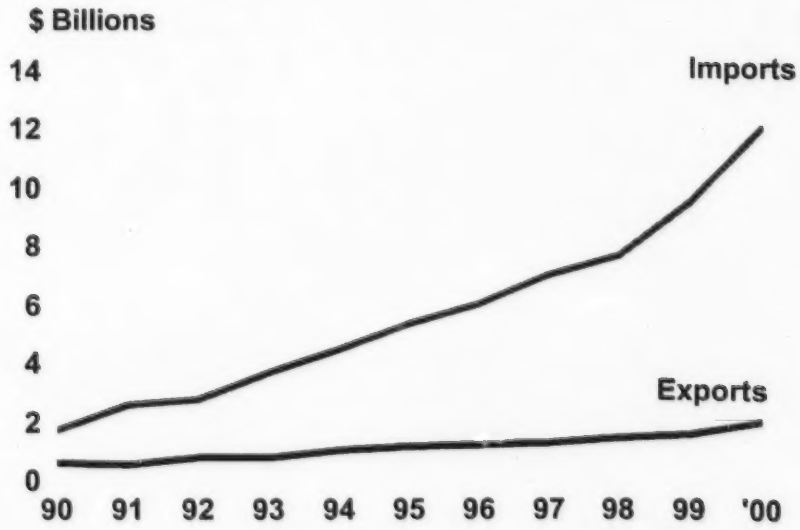
Mexico

Canada-Mexico Linkages

Trade flows between Canada and Mexico are increasing fast...

- Canadian merchandise exports to Mexico registered more than a three-fold increase in the 1990s, from $0.6 billion in 1990 to $2.0 billion in 2000.
- Canadian merchandise imports increased even faster, jumping from $1.7 billion in 1990 to $12.1 billion in 2000 — an increase of 600%.

Canadian Merchandise Trade with Mexico

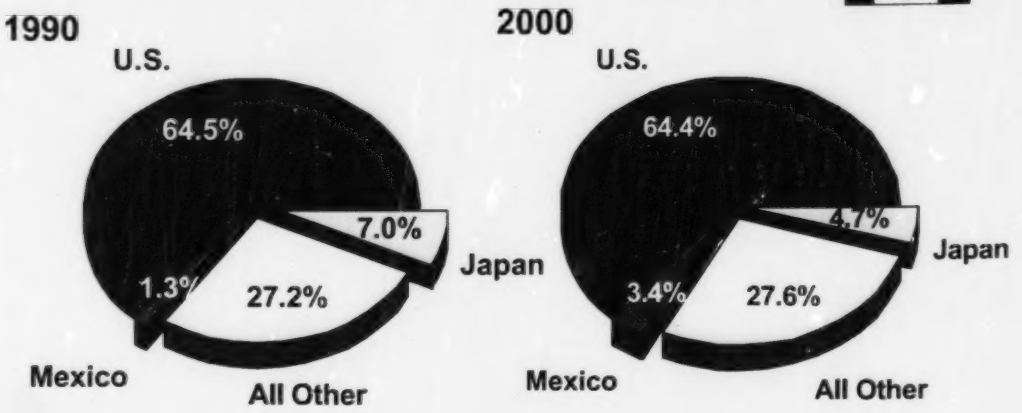


Source; Industry Canada compilations based on Statistics Canada data

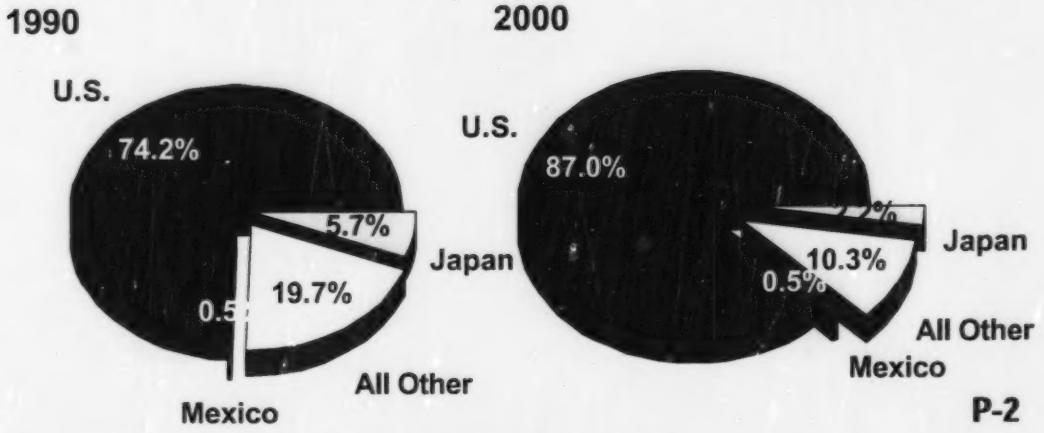
...but are still small

- Mexico's share of Canada's merchandise imports increased nearly three-fold since 1990, from about 1.3% in 1990 to 3.4% in 2000.
  - Mexico is now Canada's third largest source of imports, behind the U.S. and Japan.
- But, Mexico still accounts for only 0.5% of total Canadian exports.

Distribution of Canadian Imports



Distribution of Canadian Exports



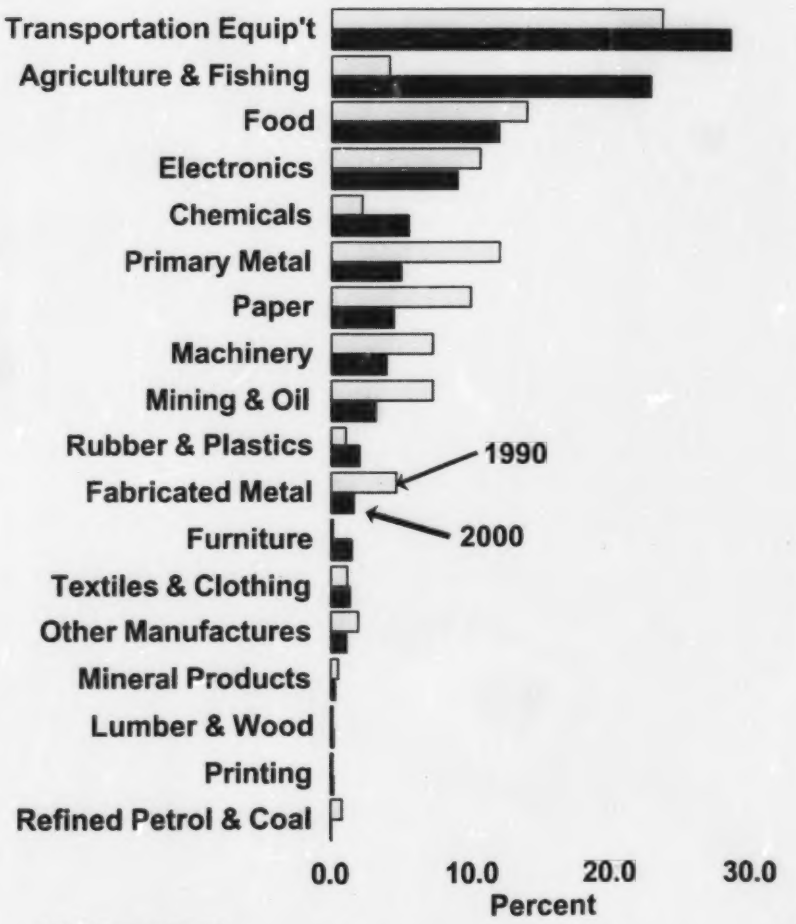
P-2

Source; Industry Canada compilations based on Statistics Canada data

Transportation equipment is our largest export to Mexico...

- Agriculture & Fishing products and Transportation Equipment account for half of Canada's merchandise exports to Mexico. Both industries increased their share of Canadian exports to Mexico in the 1990s.
  - Agriculture's share rose the most, from 4.1% of Canadian exports in 1990 to 22.6% in 2000.

Distribution of Canada's Exports to Mexico*

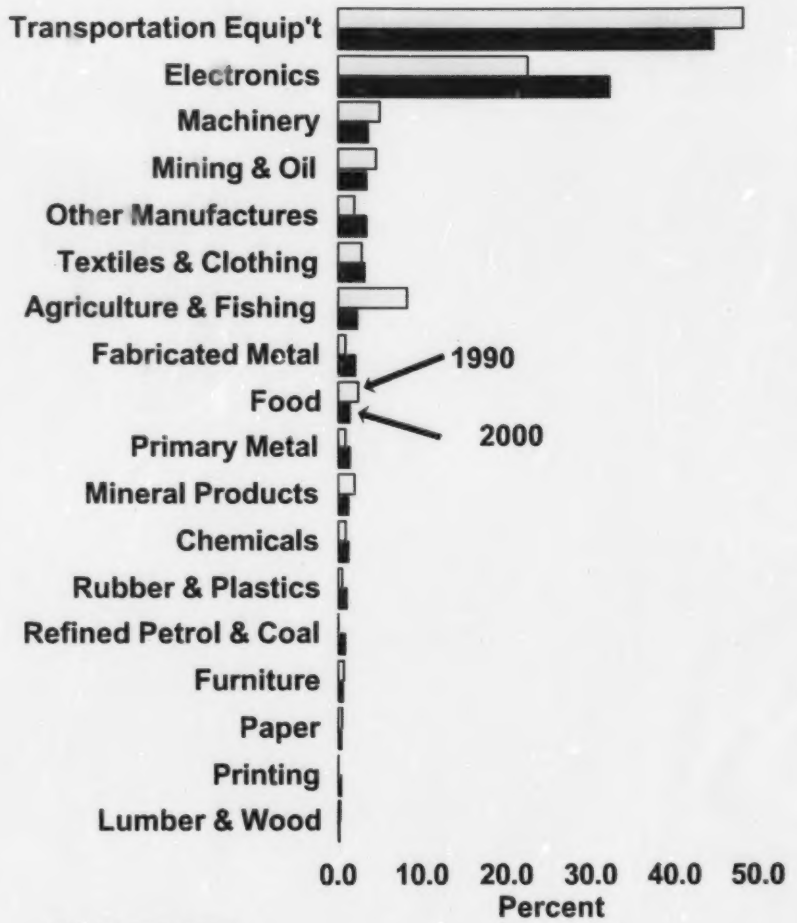


* Merchandise Exports
Source: Industry Canada compilations based on Statistics Canada data

...as well as our largest import

- Transportation equipment accounts for 44.3% of Canadian imports from Mexico in 2000, down slightly from 47.8% in 1990.
  - Large two-way trade flows imply product specialization.
- Electronics account for another 32.1% of Canadian imports, up from 22.5% in 1990.
- Together, these two industries account for about three-quarters of our imports from Mexico.

Distribution of Canada's Imports from Mexico*



* Merchandise Exports
Source: Industry Canada compilations based on Statistics Canada data.

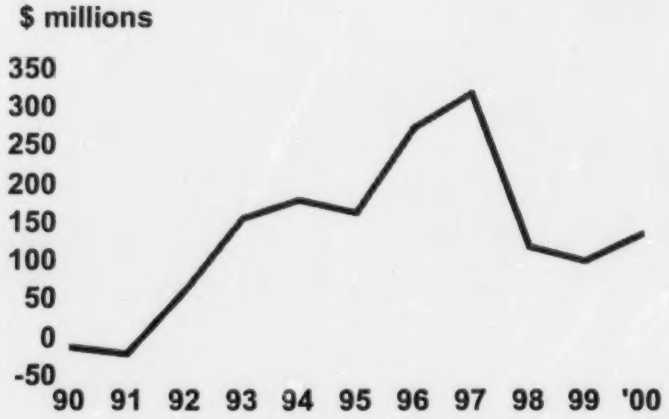
Direct investment links are also rising

- Mexican direct investment in Canada reached nearly $132 million in 2000, up from close to zero only 10 years prior.

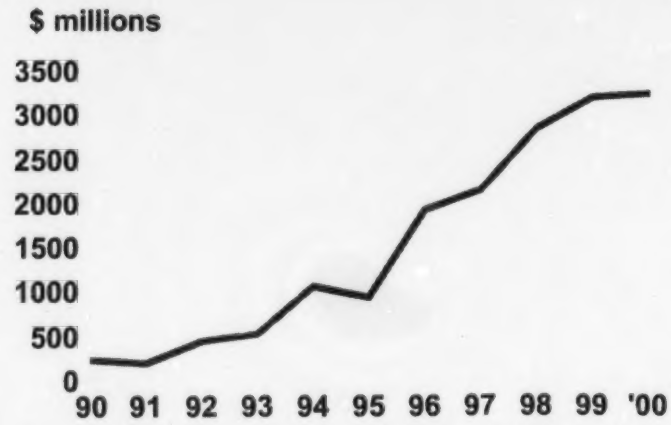
- Canadian direct investment in Mexico increased tenfold in the 1990s, reaching $3.2 billion in 2000.

  - This is about 1% of Canadian outward direct investment.

Mexican FDI in Canada



Canadian FDI in Mexico



Source; Industry Canada compilations based on Statistics Canada data

Annex

Mexico States by Region

North
Baja California
Baja California Sur
Chihuahua
Coahuila
Durango
Nuevo Leon
Sinaloa
Sonora
Tamaulipas
Zacatecas

Central
Aguascalientes
Colima
Distrito Federal
Estado de Mexico
Guanajuato
Hidalgo
Jalisco
Michoacan de Ocampo
Morelos
Nayarit
Quertaro
San Luis Potos

South
Campeche
Chiapas
Guerrero
Oaxaca
Puebla
Quintana Roo
Tabasco
Tlaxcala
Veracruz-Llave
Yucatan

Sources of Trade Data

Trade data from Statistics Canada is used when ever possible, as the official source for Canadian trade data. Data from the World Trade Atlas and IMF are used for international comparability. This can result in a discrepancy between trade statistics, particularily Canadian exports to Mexico and Canadian imports from Mexico.

For Further Information

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